PRICEWATERHOUSECOOPERS

Evaluation of Business Options with Respect to the Nova Scotia Liquor Commission

09/12/2000

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1.0 Executive Summary

The following document examines the various business options and potential proceeds to the Province of Nova Scotia of alternatives to the current provincial system of alcohol distribution and sales. PricewaterhouseCoopers LLC was retained by the Province to provide support to a government Review Committee with their broad-based analysis of the likely financial and other impacts of various business options using a variety of assumptions. Because of the broad nature of this request, we examined existing and recent privatization efforts in the alcohol wholesale and retail industries in Canada and the U.S. to help us understand both the approach and associated operating characteristics used in this analysis. These various business models have been conducted through a variety of approaches, ranging from full privatization to licensing systems. As we proceeded through this process, however, the specific scenarios considered in our analysis were tailored, to the extent possible, to more closely correspond to conditions within Nova Scotia. Please note that our review of options for the beverage alcohol industry incorporates the financial implications of continued enforcement and education efforts, but does not include a more detailed analysis of these areas.

1.1 Background

The NSLC is mandated to control the possession, sale, transportation and delivery of liquor –including beer, wine and spirits – in Nova Scotia. As part of this mandate the general control, management and supervision of all government liquor stores and shops is vested with the Province.

The NSLC is currently operating in a favourable position as a result of a number of years of "cost containment" and "right sizing mode" with projected increases in volume (.88%), sales dollars (2.59%), gross margin (3.21%) and net income (3.75%) for 2000-2001 over last year.

The current Government process review with objectives of focusing operations on core government policies is understood. One such direction, as indicated in the 2000-2001 budget is the Government to "get out of the retail and wholesale liquor business provided that such a move made good sense for taxpayers". This statement has prompted the formation of the Committee charged with undertaking a comprehensive review of alternatives to the current system of alcohol distribution and sales.

It is understood that regardless of the approach, the Government will maintain policy control over alcohol distribution and sales, thereby minimizing the negative social impacts of alcohol consumption.

It is against this backdrop of provincial and national trends that the Province of Nova Scotia is evaluating the feasibility of alternative business models for the beverage alcohol industry.

1.2 Alternative Business Model Analysis

The analysis contained in this document assesses the impact of various business models on the cash flows to the Province under the following alternatives:

- **Nova Scotia Liquor Commission (NSLC) Operated** - *This option represents the current NSLC model, where the wholesale and retail business of beer, wine, and spirits is owned and operated by the government.*

- **NSLC Plus Agency Stores** - *This option results in the closure of stores that are below the average profitability of NSLC retail stores. These retail outlets will be replaced by agency stores (i.e., corner stores, convenience stores). In addition, agency stores will be opened in the more rural/remote areas of Nova Scotia.*

- **"Quebec" Model** - *The "Quebec" model under review would envision that spirits would continue to be sold through NSLC run retail outlets only. The opportunity to sell beer and wine will be licensed to owners of grocery stores and corner stores. This will be operated in a more open market fashion. The supplier of beer and wine will decide which distribution network (i.e., NSLC outlets or grocery/corner stores) they will sell their product through. The same product/brand cannot be sold in both NSLC and private stores.*

- **Franchise** - *The franchise model option under review would see the elimination of all 100 NSLC retail outlets and have them replaced by franchise outlets. There will be a franchise agreement that defines all aspects of the operation including duration and parameters in which the franchisee must operate. All products, spirits, wine and beer will be sold through these outlets.*

- **Alberta (Adapted to N.S.)** - *The "Alberta Model" proposes that all aspects of the retail liquor operations be privatized. The privatized retail outlets are not required to be a stand-alone operation and may be operated within a grocery store, convenience store or other retail outlet. NSLC will retain its role as sole wholesaler and importer of liquor in Nova Scotia. The procurement, consolidation, shipment and ownership of all inventory will be the responsibility of the suppliers and/or agents representing the suppliers. NSLC may contract out the management and operation of the warehouse.*

- **Monopoly** - *The Monopoly option is one which assumes the Government will sell off ownership of the "Liquor Corporation" through an initial public offering of stock. This sale would generate initial cash flows to the Province equal to the value of the "exclusivity-right" to investors. The new owner could then grant licenses or franchise rights to retailers.*

- **Private** - *The Private Sector Model is envisioned as an option with both wholesale and retail fully privatized. The NSLC/Government would issue licenses to both wholesalers and retailers on an annual basis. The number of licenses would be driven by market forces.*

This analysis should only be used as a general "road map" for policy makers within the Province of Nova Scotia to determine likely financial effects of various options under different scenarios, and not to determine the "optimal" approach to changing the business model. As noted in the document, once a particular model is determined (based on public policy as well as financial considerations), the model can be optimized to determine the most likely financial results under that scenario using a variety of assumptions that may differ significantly from those used in this document. For just this reason, we have evaluated a wide range of options for consideration.

Given the need for ongoing discussion and development of options based on policy considerations, the results of this analysis form the basis of a work in progress. Additional analysis will need to be performed to develop specific operating characteristics and models that are tailored to the particulars of the Nova Scotia market. Where possible, we have adjusted the assumptions derived from the business model experiences of other provinces and states to reflect conditions in Nova Scotia. However, we have only used "broad-based" assumptions in many areas. Once a preferred approach to the business model is selected by the Province, additional analysis will need to be performed to adjust the assumptions to more closely represent Nova Scotia's demographics and commercial environment.

2.0 Introduction

The current Government process review with objectives of focusing operations on core government policies is understood. One such direction, as indicated in the 2000-2001 budget is the Government to "get out of the retail and wholesale liquor business provided that such a move made good sense for taxpayers". This statement has prompted the formation of the Committee charged with undertaking a comprehensive review of alternatives to the current system of alcohol distribution and sales.

The Committee is made up of senior staff from NSLC, Priorities and Planning Secretariat, Finance, and Business and Consumer Services.

PricewaterhouseCoopers LLP was retained to assist the Committee to identify and analyse potential business models for the warehousing, distributing and selling of alcohol and assess the impacts of these models on the Province Staff, government finances, public service and control over the sale and distribution of alcohol. As such, PwC was expected to identify and research alternative models of service delivery and to carry out an appropriate assessment of each model considered. PwC was not expected to recommend to the Committee or Government the preferred model.

PwC involved a well experienced team in the critical areas for the success of the Review. Resources with Liquor Industry expertise, Alternative Service Delivery and Project Management Expertise, Supply Chain Management and Privatization as it relates to public sector and crown corporations.

3.0 Summary of Beverage Alcohol Options

This section focuses on the impact of the various business models on the Province of Nova Scotia and NSLC for each of the options under consideration. Each option reflects a different set of operating assumptions in the areas of wholesale and retail mark-ups, franchise and license fees, wholesale and retail, and transition costs. The assumptions developed were based on information obtained from comparable provinces and states, industry research, and NSLC staff. As in the Baseline scenario, the financial model we developed was used to produce 10-year forecasts, which estimate the revenues and costs accruing to NSLC operations and the Province.

The options analyzed were as follows:

- **Nova Scotia Liquor Commission (NSLC) Operated** - *This option represents the current NSLC model, where the wholesale and retail business of beer, wine, and spirits is owned and operated by the government.*

- **NSLC Plus Agency Stores** - *This option results in the closure of stores that are below the average profitability of NSLC retail stores. Agency stores (i.e., corner stores, and convenience stores) will replace these retail outlets. In addition, agency stores will be opened in the more rural/remote areas of Nova Scotia.*

- **"Quebec" Model** - *The "Quebec" model under review would envision that spirits would continue to be sold through NSLC run retail outlets only. The opportunity to sell beer and wine will be licensed to owners of grocery stores and corner stores. This will be operated in a more open market fashion. The supplier of beer and wine will decide which distribution network (i.e., NSLC outlets or grocery/corner stores) they will sell their product through. The same product/brand cannot be sold in both NSLC and private stores.*

- **Franchise** - *The franchise model option under review would see the elimination of all 100 NSLC retail outlets and have them replaced by franchise outlets. There will be a franchise agreement that defines all aspects of the operation including duration and parameters in which the franchisee must operate. All products, spirits, wine and beer will be sold through these outlets.*

- **Alberta (Adapted to N.S.)** - *The "Alberta Model" proposes that all aspects of the retail liquor operations be privatized. The privatized retail outlets are not required to be a stand-alone operation and may be operated within a grocery store, convenience store or other retail outlet. NSLC will retain its role as sole wholesaler and importer of liquor in Nova Scotia. The procurement, consolidation, shipment and ownership of all inventory will be the responsibility of the suppliers and/or agents representing the suppliers. NSLC may contract out the management and operation of the warehouse.*

- **Monopoly** - *The Monopoly option is one which assumes the Government will sell off ownership of the "Liquor Corporation" through an initial public offering of stock. This sale would generate initial cash flows to the Province equal to the value of the "exclusivity-right" to investors. The new owner could then grant licenses or franchise rights to retailers.*

- **Private** - *The Private Sector Model is envisioned as an option with both wholesale and retail fully privatized. The NSLC/Government would issue licenses to both wholesalers and retailers on an annual basis. Market forces would drive the number of licenses.*

Province of Nova Scotia
Alcohol Beverage
Alternative Models Option Descriptions

Option A -NSLC

The option represents the current NSLC model, where the wholesale and retail business of beer, wine, and spirits is owned and operated by the government.

Option C – Quebec Model

The "Quebec" model under review would envision that spirits would continue to be sold through NSLC run retail outlets only. The opportunity to sell beer and wine will be licensed to owners of grocery stores and corner stores etc. This will be operated in a more open market fashion. The supplier of beer and wine will decide which distribution network (i.e., NSLC outlets or grocery/corner stores) they will sell their product through. The same product/brand cannot be sold in both NSLC and private stores.

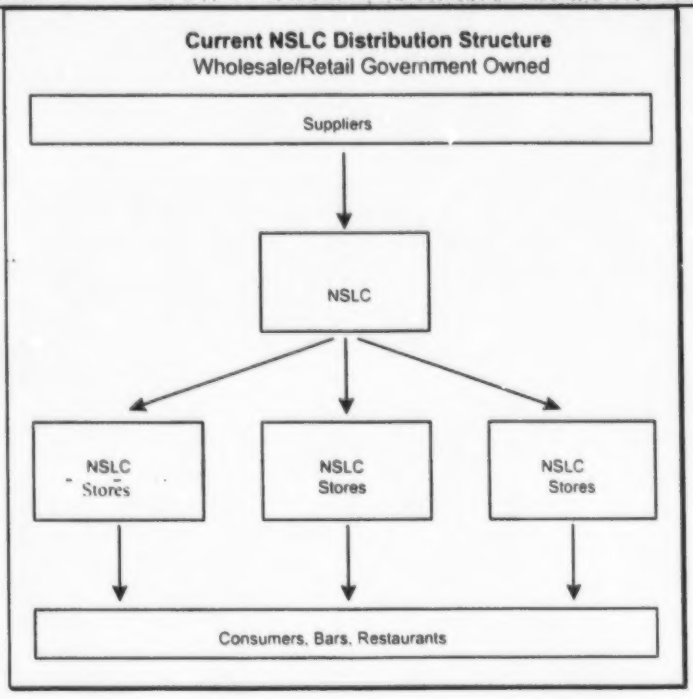
Option D1 – Franchise Model

The franchise model option under review would see the elimination of all 100 NSLC retail outlets and have them replaced by franchise outlets. There will be a franchise agreement that defines all aspects of the operation including duration and parameters in which the franchisee must operate. All products, spirits, wine and beer will be sold through these outlets.

Option A -NSLC	
Model Component	**Detail**
The option represents the current NSLC model, where the wholesale and retail business of beer, wine, and spirits is owned and operated by the government.	
Retail	
Total number of retail outlets	• 100
Estimated retail price change	N/A
Service levels	• Only 12,000 legal drinking age adults have a personal residence outside of a 20km radius from a NSLC outlet • 15.3 million retail transactions • Sites in all major communities • Remote/rural locations not currently being serviced • Use computerized analysis to cater to local market demand • Due to monopoly situation, product selection expanded beyond what it would be in a private sector model. • Programs – Port of Wines, Bottle Your Own Wines, Special Order Programs, Port of Wines Festival • 98% service level on product availability • Significant contributor to various charitable programs
Product Listings	• Controlled by NSLC • Current product selection = approx. 2000+/- SKU's • All outlets sell Beer, Wine and Spirits
Wholesale/Distribution	
Wholesale Operations	• Total of 363 suppliers • Provincial Suppliers=20 • National Suppliers=20 • International Suppliers = 43 countries and 323 suppliers

Option A –NSLC

Model Component	Detail



Social Impact	
Sale of liquor to minors and intoxicated persons	• Status quo relative to current regulatory and policing activities
Sale of illegal liquor	• Status quo relative to current regulatory and policing activities
Increased criminal activity	• Status quo relative to current regulatory and policing activities
Increased liquor consumption and drinking and driving incidents	• Status quo relative to current regulatory and policing activities
Financial/Economic Impact	
Impact on revenue to government	• Positive revenue stream to government - $137.7M, 37% return on sales • Revenue stream is more manageable and predictable than it might be in other options. • Modest increases budgeted for over next few years.

Option A - NSLC

Model Component	Detail
10-year Net income to government	• $1,035 M
Timing/Pattern of Cash flow to Government	• Annual stream of revenues from NSLC operations.
NSLC staff impacted	N/A
Estimated current employment	• # of FTEs = 746 • Unionized employees =564 • Above average paying jobs spread across the province
Job wages	• Unionized wages higher than private sector retail wages.
Additional economic spin-offs	• One of the largest retail operations in Atlantic Canada • $26M of direct salaries into the economy. • Additional spin-off employment of 1,014 FTEs (per Economic Model) • Additional spin-off household income of $34.5 million (per Economic Model) • Additional Provincial Government revenue due to income and consumption taxes of $3.1 million
Transition Issues	
Strategy	N/A
Costs	N/A
Constraints	N/A
Timeline	N/A
Market Infrastructure Capacity	N/A

Option A -NSLC

Model Component	Detail
Role of Government	
Role of the Government in protecting the social well being of Nova Scotians	• NSLC fully regulates the sale of beverage alcohol products

Province of Nova Scotia
Beverage Alcohol
Alternative Business Models

A - NSLC (To Be)	Baseline	Year										
($, 000)	1999/2000	1	2	3	4	5	6	7	8	9	10	
Costs												
Cost of Goods	50.2%	183 870	185 709	187 566	189 441	191 336	193 249	195 182	197 133	199 105	201 096	203 107	Increases in proportion to sales; consistent with previous five years;
Labour (salaries and benefits):													
Non Union	1.3%	4 906	4 906	4 906	4 906	4 906	4 906	4 906	4 906	4 906	4 906	4 906	Constant;
Union Warehouse and Distribu	0.4%	1 464	1 479	1 494	1 509	1 524	1 539	1 555	1 570	1 586	1 602	1 618	% of sales;
Retail Store Casuals	0.3%	1 025	1 035	1 046	1 056	1 067	1 077	1 088	1 099	1 110	1 121	1 132	% of sales;
Union Retail Outlets	6.0%	21 967	22 187	22 408	22 632	22 859	23 087	23 318	23 551	23 787	24 025	24 265	% of sales;
Union Head Office	0 3%	1 098	1 098	1 098	1 098	1 098	1 098	1 098	1 098	1 098	1 098	1 098	Constant;
Occupancy:													
Utilities		1 435	1 435	1 435	1 435	1 435	1 435	1 435	1 435	1 435	1 435	1 435	Constant;
Rent/lease		5 558	5 558	5 558	5 558	5 558	5 558	5 558	5 558	5 558	5 558	5 558	Constant;
Taxes		1 723	1 723	1 723	1 723	1 723	1 723	1 723	1 723	1 723	1 723	1 723	Constant;
Insurance		58	58	58	58	58	58	58	58	58	58	58	Constant;
Warehouse and Distribution	0.07%	256	259	261	264	267	269	272	275	278	280	283	% of sales
Freight	0.19%	696	703	710	717	724	731	738	746	753	761	768	% of sales
Travel	0.08%	293	293	293	293	293	293	293	293	293	293	293	Constant;
Training	0.05%	183	183	183	183	183	183	183	183	183	183	183	Constant;
R&M/Service Contracts	0.43%	1 574	1 574	1 574	1 574	1 574	1 574	1 574	1 574	1 574	1 574	1 574	Constant;
Early Retirement/PSA	0.16%	586	592	598	604	610	616	622	628	634	641	647	% of sales
Bank and Debit/Credit Card Cha	0.24%	879	887	896	905	914	923	933	942	951	961	971	% of sales
Supplies/Clothing/Safety Shoes	0.16%	586	586	586	586	586	586	586	586	586	586	586	Constant;
Other	0.05%	183	185	187	189	190	192	194	196	198	200	202	% of sales
Total Costs		**228 341**	**230 450**	**232 580**	**234 732**	**236 905**	**239 100**	**241 317**	**243 556**	**245 817**	**248 101**	**250 408**	
Revenues													
NSLC Sales		366 115	369 776	373 473	377 208	380 980	384 790	388 638	392 524	396 450	400 414	404 418	
Total Revenues		**366 115**	**369 776**	**373 473**	**377 208**	**380 980**	**384 790**	**388 638**	**392 524**	**396 450**	**400 414**	**404 418**	
Total net inflow/outflow		**137 774**	**139 326**	**140 893**	**142 476**	**144 075**	**145 690**	**147 321**	**148 968**	**150 632**	**152 313**	**154 010**	

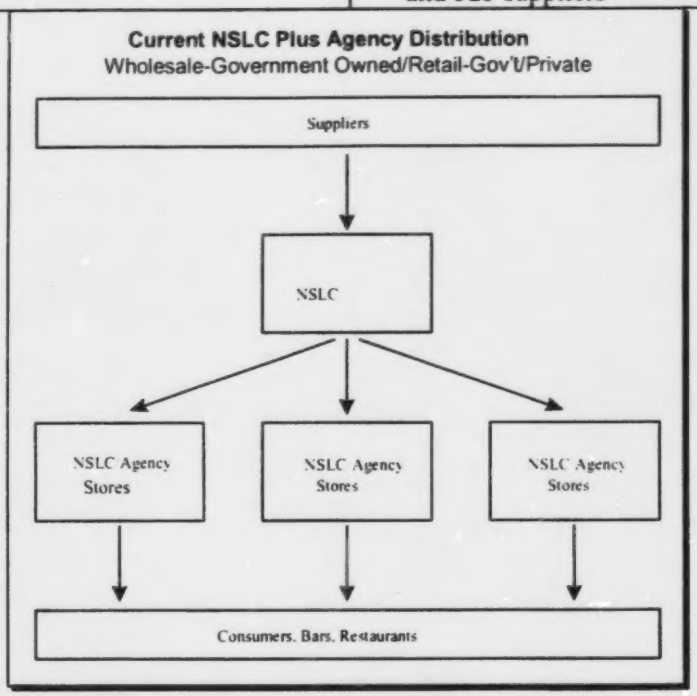
10 Year Net Present Value
6.75% **$ 1 035 256**

This option results in the closure of stores that are below the average profitability of NSLC retail stores. This would impact 32 current NSLC retail outlets. These retail outlets will be replaced by agency stores (i.e., corner stores, convenience stores). In addition, agency stores will be opened in the more rural/remote areas of Nova Scotia.

Retail	
Estimated total number of retail outlets	• Estimated approximately 130 retail outlets or a 2:1 ratio of agency to government run outlets (32 NSLC stores closed; 60 Agency stores opened)
Estimated initial retail price change	• Prices not impacted and will be set by NSLC • Discount to Agents subject to tender call • Sales to general public and licensees
Service levels	• Categories of products would include spirits, wine, beer and coolers. • Minimum limits based on market size and customer profile. • Chilled products at Agent's option • Quality control standards of NSLC The quality of service has the potential to improve where: • Agents cater to customers tastes in their region • Expanded retail hours for agency stores • Shorter travel distances and more convenient locations for agency stores • Increased number of outlets in rural areas • Customers will be able to purchase liquor products with other consumable goods located in store.
Anticipated Impact on number of product listings	• Same warehouse product listings as current operations. However, retail product listings may decline in Agency stores. • Agency stores will probably offer fewer products because of limited shelf space

Wholesale/Distribution

Wholesale Operations	• Total of 363 suppliers • Provincial Suppliers=20 • National Suppliers=20 • International Suppliers = 43 countries and 323 suppliers



Social Responsibility

NSLC – to uphold the public trust given to the NSLC by virtue of the Liquor Control Act and Regulations Agent – to ensure compliance with standards set from time to time by the NSLC	• Province will maintain control of controversial product. Private sector has been found to be responsible with similar agency store models in other provinces. • Hours of operation maximum 9 am – midnight, minimum 10 am – 5 pm with exclusions as per NSLC. • Subject to NSLC operating and training procedures in reporting and merchandising programs • Monitoring by Regional Managers and

	Auditors • Point-of-sale clerks making transactions must be 19+ years of age • Compliance with Trade Agreements

Financial/Economic Impact	
Impact on revenue to government	• NSLC maintains control over both retail and wholesale prices and liquor distribution. The agency stores receive a discount – maximum of 8%. • Revenues to government will improve slightly under this option due to the elimination of the less profitable stores (estimated at $3.0-3.5 million at the conclusion of implementation)..
10-year Net income to government	• $1,054 M
Timing/Pattern of Cashflow to Government	• Annual stream of revenues from NSLC and Agency store operations.
NSLC staff impacted	• Approximately 59 full-time, 35 regular part-time and a number of casual employees working limited hours would be displaced.
Estimated employment creation	• Most likely will not result in increase in employment due to liquor sales being integrated within current stores operations and staffed by same persons.
Job wages	• Agency Store wages are lower – more in line with standard retail wages
Additional Impacts	• Private sector involvement in beverage alcohol retailing • Potential enhancement for tourism ("community becomes a shopping destination")
Transition Issues	
Strategy	• To implement an agency store program • To replace NSLC stores with lower than average profit ratio • To expand points of service in a cost effective manner • To open agency stores on an approximate 2 for 1 basis versus closed NSLC outlets • To service communities not currently served by NSLC

	• To establish agency stores through a formal tendering process • Minimum distance to NSLC store – 20 kms • Preference to currently operating business • Distant from schools, churches, location where minors congregate • Provide continued, effective regulatory control • Ensure revenue stability for the NSLC/Province • Effectively integrate privately operated retail operations into the liquor system • Dispose of NSLC properties at appraised market values. • Make a positive overall contribution to the NS economy.
Revenues/Costs	• $2.5 – 3.0 M severance costs • Lease termination costs ($118,000) • $850,000 proceeds on disposal of retail outlets
Constraints	• Successor rights implications • Plebiscites required in some locations • Potential Sunday shopping pressure
Timeline	• Government support of the program – Fall 2000 • Legislative changes Fall 2000 • 2-year implementation plan

Eligibility	• Communities identified with the appropriate population data and sufficient travel distance to the nearest NSLC outlet • Request support of municipal council for an Agency Store to be located in any new municipal unit • Preference to established business venture in the community, excluding licensed premises • Existing business must be financially viable on its own • No serious criminal or alcohol related offences • No affiliation with alcohol related businesses • Bondable and insurable • Meet the NSLC selection criteria
Market Infrastructure Capacity	• There are currently a number of "Agency ready" stores (e.g., grocery stores, corner stores) existing within rural Nova Scotia.
General	• All set up costs and equipment borne by the Agent • Retail and warehouse space to be in same building • Stock pick-up at Agent expense from designated NSLC outlet or Distribution Centre • Cancellation by Agent with 60 days notice • Cancellation by NSLC for breach of contract • Agreement for five years with one year review period and an option for up to five years • Re-advertising for the Agency would be automatic after the option period

Role of Government	
Role of the Government in protecting the social well being of Nova Scotians	• Government support through legislative changes to Liquor Control Act. • NSLC will continue to fully regulate the sale of beverage alcohol products • Monitored on an ongoing basis through NSLC • Review each agent yearly • NSLC would develop operating guidelines and provide product training and some level of business support. The agency stores are required to operate within these guidelines. (e.g., liquor licensing inspectors, customer feedback, and an audit process).

Province of Nova Scotia
Beverage Alcohol
Alternative Business Models

($, 000)		1999/2000	1	2	3	4	5	6	7	8	9	10	
Costs													
Cost of Goods	50.2%	183 870	185 709	187 566	189 441	191 336	193 249	195 182	197 133	199 105	201 096	203 107	Increases in proportion to sales, consistent with previous five years
Labour (salaries and benefits)													
Non Union	1.3%	4 906	4 906	4 906	4 906	4 906	4 906	4 906	4 906	4 906	4 906	4 906	Constant
Union Warehouse and Distribution	0.4%	1 464	1 479	1 494	1 509	1 524	1 539	1 555	1 570	1 586	1 602	1 618	% of sales
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Union Head Office	0.3%	1 098	1 098	1 098	1 098	1 098	1 098	1 098	1 098	1 098	1 098	1 098	Constant
Occupancy													
Utilities		1 435	1 435	1 435	1 435	1 435	1 435	1 435	1 435	1 435	1 435	1 435	Constant
Rent/lease		5 558	5 558	5 558	5 558	5 558	5 558	5 558	5 558	5 558	5 558	5 558	Constant
Taxes		1 723	1 723	1 723	1 723	1 723	1 723	1 723	1 723	1 723	1 723	1 723	Constant
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Warehouse and Distribution	0.07%	256	259	261	264	267	269	272	275	278	280	283	% of sales
Freight	0.19%	698	703	710	717	724	731	738	746	753	761	768	% of sales
Travel	0.08%	293	293	293	293	293	293	293	293	293	293	293	Constant
Training	0.05%	183	183	183	183	183	183	183	183	183	183	183	Constant
R&M/Service Contracts	0.43%	1 574	1 574	1 574	1 574	1 574	1 574	1 574	1 574	1 574	1 574	1 574	Constant
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Bank and Debit/Credit Card Charges	0.24%	879	887	896	905	914	923	933	942	951	961	971	% of sales
Supplies/Clothing/Safety Shoes	0.16%	586	586	586	586	586	586	586	586	586	586	586	Constant
Other	0.05%	183	185	187	189	190	192	194	196	198	200	202	% of sales
Operating Costs		**226 341**	**230 450**	**232 560**	**234 732**	**236 905**	**239 100**	**241 317**	**243 556**	**245 817**	**248 101**	**250 408**	
Agency Commission	8.0%			1 574	3 148	3 148	3 148	3 148	3 148	3 148	3 148	3 148	Other jurisdictions range from 7% 12%
Savings from NSLC stores closed				(3 307)	(6 614)	(6 614)	(6 614)	(6 614)	(6 614)	(6 614)	(6 614)	(6 614)	Estimated savings from the closure of 32 stores
Total Costs		**226 341**	**230 450**	**230 847**	**231 265**	**233 439**	**235 634**	**237 850**	**240 089**	**242 351**	**244 635**	**246 942**	
Revenues													
NSLC Sales		366 115	369 776	353 801	337 863	341 635	345 445	349 293	353 180	357 105	361 069	365 073	Total NSLC sales (excludes agency store sales)
Agency Sales				19 672	39 345	39 345	39 345	39 345	39 345	39 345	39 345	39 345	Sales associated with 32 agency stores base agency sales number provided by NSLC phased in equally over two years no growth over base sales
Total Revenues		**366 115**	**369 776**	**373 473**	**377 208**	**380 980**	**384 790**	**388 638**	**392 524**	**396 450**	**400 414**	**404 418**	
10 Year Net Present Value @ 6.75%		**$ 1 055 119**											
Transition Revenue / (Costs)													
Costs													
Severance Packages and Related Costs				1 500	1 500								Severance packages associated with 59 full time, plus part time and casuals stores phased out over two years Severance costs provided by NSLC
Termination of lease related to the closing of NSLC retail outlets				118	118								6 months rent of 15 locations phased out over 2 years
Revenue													
Property Sale (NSLC owned retail outlets)				850	850								Assume approximately $100K/store for 17 NSLC owned stores
Total Transition Revenue / (Costs)				(768)	(768)								
10 Year Net Present Value @ 6.75%		**$ 1 053 814**											

Option C – Quebec Model

Model Component	Detail
The "Quebec" model under review would envision that spirits would continue to be sold through NSLC run retail outlets only. The opportunity to sell beer and wine will be licensed to owners of grocery stores and corner stores etc. This will be operated in a more open market fashion. The supplier of beer and wine will decide which distribution network (i.e., NSLC outlets or grocery/corner stores) they will sell their product through. The same product/brand cannot be sold in both NSLC and private stores.	
Retail	
Estimated total number of retail outlets	• NSLC Stores = 100 outlets • The number of retail outlets for Beer & Wine should be a significant number as all convenience and grocery stores can sell these products
Estimated initial retail price change	• NSLC will continue to set retail prices for spirits and wine/beer sold in it's stores. • NSLC will regulate minimum retail prices for beer and wine sold in private stores. The actual price charged to consumers is open to competition. • Expectation is that prices will increase due to higher costs in the system.
Service levels	• Grocery stores are experienced customer service operations • Retail Outlets cater to customers tastes in their region • Expanded retail hours for corner stores, grocery stores, etc. • Shorter travel distances and more convenient locations for stores • Increased number of outlets in rural areas
Anticipated Impact on number of product listings	• Anticipated that the number of product listings will not increase in the system as a whole. • Products carried in corner and grocery stores will probably be limited to local market demand and high turnover items
Wholesale/Distribution	
Wholesale Operations	• The wholesale operation for beer and wine sold in grocery/corner stores will

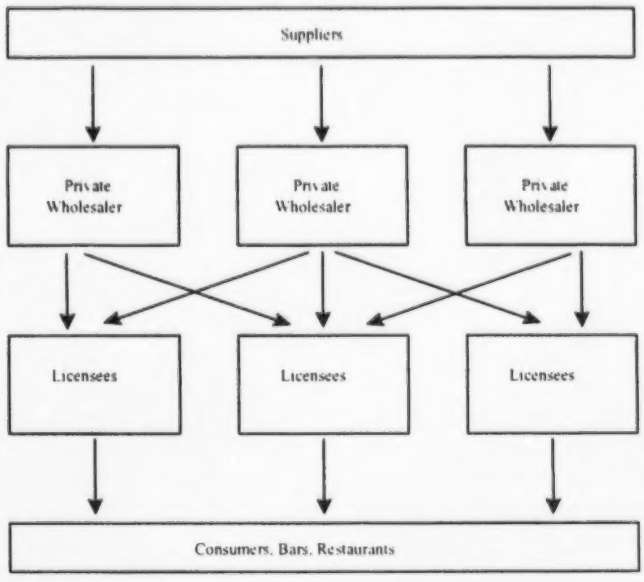
Option C – Quebec Model

Model Component	Detail
	be privatized. • The wholesale operation for NSLC stores will continue to be provided by NSLC

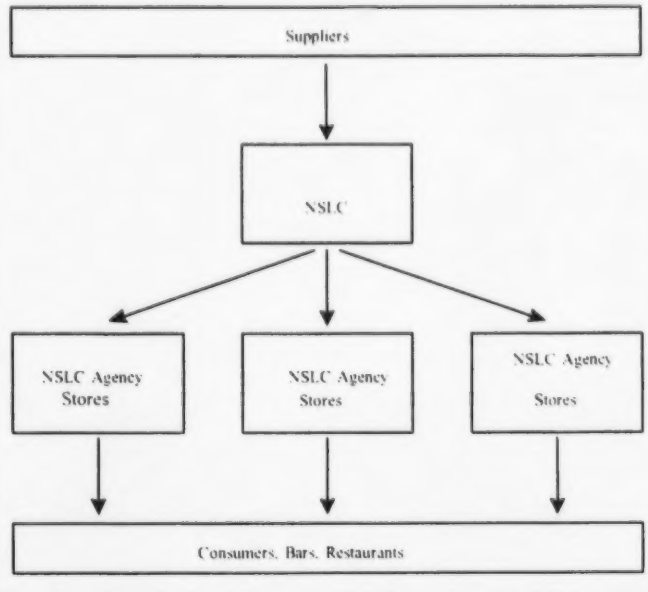
Option C – Quebec Model

Model Component	Detail

Quebec Beer and Wine Distribution Structure
Wholesale/Retail Privatization - Licensing Scenario



Quebec NSLC Store Distribution Structure
Wholesale/Retail Government Owned



Option C – Quebec Model

Model Component	Detail
Social Impact	
• Sale of liquor to minors and intoxicated persons • Sale of illegal liquor • Increased criminal activity • Increased liquor consumption and drinking and driving incidents	• Province will continue regulatory and monitoring activities. Private sector has been found to be responsible with similar private store models in other provinces.
Financial/Economic Impact	
Impact on revenue to government	• Revenue stream can be maintained from the sales through NSLC stores and from a tax/mark-up on the sale of beer and wine
10-year Net income to government	• $870 M
Timing/Pattern of Cash flow to Government	• Cash flows will be received on an on-going basis through the NSLC store operations and through the tax/mark-up on beer and wine.
NSLC staff impacted	• 25% of unionized staff (140 staff)
Estimated employment creation	• Employment will most likely not increase from a retail perspective as liquor will be integrated within current stores.
Job wages	• Beer and wine retail outlet wages will be significantly less than unionized employees in government retail stores – more in line with standard retail/grocery wages
Additional economic spin-offs	• New annual licensing revenues. • Other jurisdictions have experienced an effect of secondary businesses developing or obtained additional work as a result of privatization.

Option C – Quebec Model	
Model Component	**Detail**
Transition Issues	
Strategy	• Use a phased approach • Provide continued, effective regulatory control • Ensure revenue stability for the NSLC/Province • Create retail model delivering improved service to consumers • Create environment for relatively stable liquor pricing • Effectively integrate privately operated retail operations into the liquor system • Dispose of NSLC properties at appraised market values. • Make a positive overall contribution to the NS economy.
Costs	• $3.5 M in severance costs • $1 M to set up new audit function and transition costs
Constraints	• Specific beer products can be sold either through grocery stores or the government retail outlets, but not both • Legislation regarding successor rights could impact this option • The new private stores will manage most effectively in a free market retail environment where there are no benchmarks for pricing and product selection set by competing government stores.
Timeline	• Make the change quickly • Estimated 1-2 years to implement.

Option C – Quebec Model

Model Component	Detail
Market Infrastructure Capacity	• There are currently a number of stores (e.g., grocery stores, convenience stores) that exist within rural and urban NS that would be suitable for beer and wine retailing. • Grocery stores have sufficient outlets to support the volume necessary to sustain smaller margins on beer and wine products. • Significant competition already exists within the grocery chains to maintain a competitive environment
Role of Government	
Role of the Government in protecting the social well being of Nova Scotians	• NSLC would monitor and control product quality. Government would develop operating guidelines and provide product training and some level of business support. Wholesale distribution will be controlled by NSLC as it is currently.

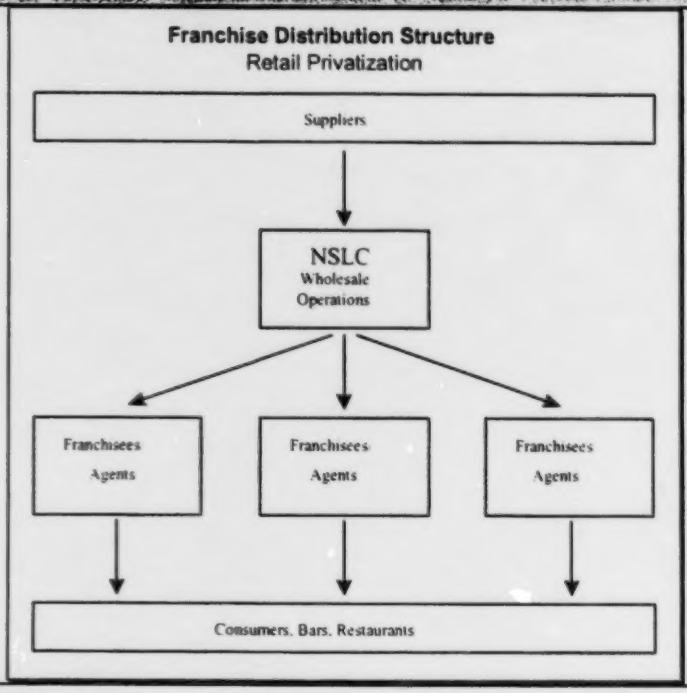
Level of Government Management	• Privatized retailing of beer and wine is a simpler system to manage than the government system:
	  • Staffing complement is reduced
	  • Less union contracts to administer
	  • Most capital construction and maintenance disappear
	  • Cash handling is much simpler
	  • Stock losses are no longer an issue

Province of Nova Scotia
Beverage Alcohol
Alternative Business Models

C - Quebec Model	Baseline		Year									
($, 000)	1999/2000		1	2	3	4	5	6	7	8	9	10
Costs	**Factors**											
Cost of Goods	50 2%	183 870	185 709	187 566	189 441	191 336	193 249	195 182	197 133	199 105	201 096	203 107	Increases in proportion to sales, consistent with previous five years
Labour (salaries and benefits)													
Non Union	1 3%	4 906	4 906	4 906	4 906	4 906	4 906	4 906	4 906	4 906	4 906	4 906	Constant
Union Warehouse and Distrit	0 4%	1 464	991	1 001	1 011	1 021	1 031	1 042	1 052	1 062	1 073	1 084	Reduction is proportional to volume decrease in warehouse (50% decrease in wine volume)
Retail Store Casuals	0 3%	1 025	777	784	792	800	808	816	824	833	841	849	Increases in proportion to sales, retain 75% of store staff to maintain minimum operational requirements
Union Retail Outlets	6 0%	21 967	16 640	16 806	16 974	17 144	17 316	17 489	17 664	17 840	18 019	18 199	Increases in proportion to sales, retain 75% of store staff to maintain minimum operational requirements
Union Head Office	0 3%	1 098	1 098	1 098	1 098	1 098	1 098	1 098	1 098	1 098	1 098	1 098	Constant
Occupancy													
Utilities		1 435	1 435	1 435	1 435	1 435	1 435	1 435	1 435	1 435	1 435	1 435	Maintain current retail facilities in the short/medium term
Rent/lease		5 556	5 556	5 556	5 556	5 556	5 556	5 556	5 556	5 556	5 556	5 556	Maintain current retail facilities in the short/medium term
Taxes		1 723	1 723	1 723	1 723	1 723	1 723	1 723	1 723	1 723	1 723	1 723	Maintain current retail facilities in the short/medium term
Insurance		58	58	58	58	58	58	58	58	58	58	58	Maintain current retail facilities in the short/medium term
Warehouse and Distribution	0 07%	256	173	175	177	179	180	182	184	186	188	190	Reduction is proportional to volume decrease in warehouse (50% decrease in wine volume)
Freight	0 19%	696	471	475	480	485	490	495	500	505	510	515	Reduction is proportional to volume decrease in warehouse (50% decrease in wine volume)
Travel	0 08%	293	136	137	139	140	141	143	144	146	147	149	Proportional to NSLC sales.
Training	0 05%	183	85	86	87	88	88	89	90	91	92	93	Proportional to NSLC sales.
R&M/Service Contracts	0 43%	1 574	731	738	745	753	760	768	776	783	791	799	Proportional to NSLC sales.
Early Retirement/PSA	0 16%	586	272	275	277	280	283	286	289	292	294	297	Proportional to NSLC sales
Bank and Debit/Credit Card Ch	0 24%	879	408	412	416	420	424	429	433	437	442	446	Reduced in proportion to NSLC wine and beer sales moved to grocery stores
Supplies/Clothing/Safety Shoes	0 16%	586	272	275	277	280	283	286	289	292	294	297	Reduced in proportion to NSLC wine and beer sales moved to grocery stores
Other	0 05%	183	185	187	189	190	192	194	196	198	200	202	Proportional to all sales.
COGS and Operating Costs		**226 341**	**221 627**	**223 696**	**225 765**	**227 895**	**230 026**	**232 179**	**234 353**	**236 548**	**238 766**	**241 006**	
Wholesale mark up			13 548	13 683	13 820	13 958	14 098	14 239	14 381	14 525	14 670	14 817	6% wholesale mark-up
Beer - grocery / convenience stores			14 089	14 230	14 372	14 516	14 661	14 807	14 955	15 105	15 256	15 409	8% margin
Wine - grocery / convenience stores			2 847	2 875	2 904	2 933	2 962	2 992	3 022	3 052	3 083	3 113	12% margin
Total Costs		**226 341**	**252 111**	**254 484**	**256 881**	**259 302**	**261 747**	**264 217**	**266 711**	**269 231**	**271 775**	**274 345**	
Revenues													
NSLC - Spirits		125 400	126 654	127 921	129 200	130 492	131 797	133 115	134 446	135 791	137 148	138 520	1% increase.
NSLC - Wine		46 976	23 723	23 960	24 199	24 441	24 686	24 933	25 182	25 434	25 688	25 945	1% increase, 50/50 split for wine revenue Private/NSLC
NSLC - Beer		193 739	19 568	19 763	19 961	20 161	20 362	20 566	20 771	20 979	21 189	21 401	1% increase, 90/10 split for beer revenue Private/NSLC
Grocery / Convenience Store Sales - Beer			176 108	177 870	179 648	181 445	183 259	185 092	186 943	188 812	190 700	192 607	1% increase, 90/10 split for beer revenue Private/NSLC
Grocery / Convenience Store Sales - Wine			23 723	23 960	24 199	24 441	24 686	24 933	25 182	25 434	25 688	25 945	1% increase, 50/50 split for wine revenue Private/NSLC
Total Revenues		**366 115**	**369 776**	**373 473**	**377 208**	**380 980**	**384 790**	**388 638**	**392 524**	**396 450**	**400 414**	**404 418**	
Total Inflow/outflow		**137 774**	**117 665**	**118 990**	**120 327**	**121 678**	**123 043**	**124 421**	**125 813**	**127 219**	**128 638**	**130 073**	
10 Year Net Present Value @ 6 75%		$ 874 328											
Transition Costs / Revenue													
Costs													
Severance Packages and Related Costs			3 481										25% of unamized severance costs
Development of new internal systems/business model			1 000										e g new audit function, transition support etc
Revenue													
Total Transition Revenue / (Costs)			(4 481)										
Total net Inflow/outflow			**113 184**	**118 990**	**120 327**	**121 678**	**123 043**	**124 421**	**125 813**	**127 219**	**128 638**	**130 073**	
10 Year Net Present Value @ 6 75%		$ 870 131											

Option D1 – Franchise Model	
Model component	Detail
The franchise model option under review would see the elimination of all 100 NSLC retail outlets and have them replaced by franchise outlets. There will be a franchise agreement that defines all aspects of the operation including duration and parameters in which the franchisee must operate. All products, spirits, wine and beer will be sold through these outlets.	
Retail	
Estimated total number of retail outlets	• 100 outlets
Estimated initial retail price change	• Retail prices will be set by the Franchisee, however, NSLC retains control over the wholesale pricing policies and this has significant influence on the level of retail prices.
Service levels	• Franchisees cater to customers tastes in their region • Expanded retail hours for agency stores • Shorter travel distances and more convenient locations for stores
Anticipated Impact on number of product listings	• Franchise operators can sell beer, wine, spirits, coolers, and ciders • It is possible that the breadth of listings in a particular franchise will decline as owners focus on the most profitable product mix for the local area • Total number of listings in the system is not expected to change
Wholesale/Distribution	
Wholesale Operations	• The wholesale operation will be maintained and controlled by the NSLC.

Model Components	Retail



Social Impact	
• Sale of liquor to minors and intoxicated persons • Sale of illegal liquor • Increased criminal activity • Increased liquor consumption and drinking and driving incidents	• Province will continue regulatory and monitoring activities. Private sector has been found to be responsible with similar private store models in other provinces.
Financial/Economic Impact	
Impact on revenue to government	• Revenue streams maintained through franchise fees, annual license or royalty charge and a tax/mark-up charge. • Potential to increase revenues through reductions in overhead and distribution costs by replacing NSLC outlets with franchise stores.
10-year Net income to government	• $904 M
Timing/Pattern of Cashflow to Government	• In addition to on-going revenues from the flat rate tax, NSLC will enjoy significant up front revenues from the

Model Component	Detail
	auction sale of franchises plus an annual franchise fee which would be a fixed charge or a percent of sales.
NSLC staff impacted	• All unionized staff except 28 warehouse and distribution • 50% non-unionized employees
Estimated employment creation	• Experience in other private models has seen an increase in employment in industry as a whole.
Job wages	• Average wage rates will fall as retail wages shift towards traditional retail rates and away from union rate.
Additional economic spin-offs	• Other jurisdictions have experienced an effect of secondary businesses developing or obtained additional work as a result of privatization.

Model Component	Detail
Transition Issues	
Strategy	• Use a phased approach • Provide continued, effective regulatory control • Ensure revenue stability for the NSLC/Province • Create retail model delivering improved service to consumers • Create environment for relatively stable liquor pricing • Effectively integrate privately operated retail operations into the liquor system • Dispose of NSLC properties at appraised market values. • Create an environment in which jobs in the private sector would exceed the number of employees employed by the NSLC. • Make a positive overall contribution to the NS economy.
Revenue/Costs	• $14.6 M in severance costs • $2 M in lease termination costs • $2 M to develop new system and transition costs • $110 M up-front franchise fees • $6.0 M of disposal proceeds
Constraints	• Legislation regarding successor rights could impact this option • The new private stores will manage most effectively in a free market retail environment where there are no benchmarks for pricing and product selection set by competing government stores.
Timeline	• 6 months to 2 years

Option D1 – Franchise Model	
Model Component	**Detail**
Market Infrastructure Capacity	• Private sector is capable of providing retail operations. • Wholesale operations can be provided by private third party (e.g., agent) and/or NSLC.
Role of Government	
Role of the Government in protecting the social well being of Nova Scotians	• NSLC would monitor and control product quality. NSLC would develop operating guidelines and provides product training and some level of business support to the franchisees. There will be a franchise agreement between NSLC and the operator. • Wholesale distribution will be controlled by NSLC as it is currently. • NSLC develops and maintains official product list.
Level of Government Management	• Privatized Franchise system may result in additional management and administrative effort.

Province of Nova Scotia
Beverage Alcohol
Alternative Business Models

DFA Franchise	Baseline	Year									
($, 000)	1999/2000	1	2	3	4	5	6	7	8	9	10
Costs											
Labour (salaries and benefits)											
Non Union	1.3%	4 906	2 453	2 453	2 453	2 453	2 453	2 453	2 453	2 453	2 453
Union Warehouse and Dr	0.4%	1 464	1 479	1 494	1 509	1 524	1 539	1 555	1 570	1 586	1 602
Retail Store Casuals	0.3%	1 025									
Union Retail Outlets	6.8%	21 967									
Union Head Office	0.3%	1 098									
Occupancy											
Utilities		1 435	397	397	397	397	397	397	397	397	397
Rent/lease		5 558	1 536	1 536	1 536	1 536	1 536	1 536	1 536	1 536	1 536
Taxes		1 723	476	476	476	476	476	476	476	476	476
Insurance		58	16	16	16	16	16	16	16	16	16
Warehouse and Distribution	0.07%	256	111	114	117	120	123	126	130	133	136
Freight	0.19%	666	703	716	717	724	731	738	746	753	761
Travel	0.08%	293	30	30	30	30	31	31	31	32	32
Training	0.05%	183									
R&M/Service Contracts	0.41%	1 574	318	321	324	328	331	334	338	341	344
Early Retirement/PSA	0.16%	586	118	120	121	122	123	124	126	127	128
Bank and Debit/Credit Card	0.24%	879	89	90	91	91	92	93	94	95	96
Supplies/Clothing/Safety Sh	0.16%	586	118	120	121	122	123	124	126	127	128
Other	0.05%	183	185	187	189	190	192	194	196	198	200
Operating Costs		**44 471**	**8 229**	**8 262**	**8 296**	**8 330**	**8 365**	**8 400**	**8 435**	**8 470**	**8 506**
Revenues											
Annual Franchise Fees			150	150	150	150	150	150	150	150	150
Tax / Mark Up			117 507	118 683	119 869	121 068	122 279	123 502	124 737	125 984	129 363
Total Revenues			**117 657**	**118 833**	**120 019**	**121 218**	**122 429**	**123 652**	**124 887**	**126 134**	**129 513**
Total net [illegible]			**109 429**	**110 570**	**111 723**	**112 888**	**114 064**	**115 252**	**116 452**	**117 663**	**121 007**
			109 429	110 570	111 723	112 888	114 064	115 252	116 452	117 663	121 007

10 Year Net Present Value @ 6.75% **$813 177**

Transition Costs / Revenue											
Costs											
Severance Packages and Related Costs		14 580									
Termination of Lease		2 000									
Development of new internal systems/business r		2 000									
Revenues											
Up front revenue for a 10 year franchise		109 814									
Property Sale (Retail Stores)		5 972									
Total Transition Revenue / (Costs)		97 217									
Total [illegible]		**206 646**	**110 570**	**111 723**	**112 888**	**114 064**	**115 252**	**116 452**	**117 663**	**121 007**	**122 964**

All unionize staff receive severance packages, except warehouse and distribution folks (adjusted by 28 DC/376+28 RFT = 93%); warehouse function is contracted out to third party, and 50% of ...on unionized folks
An average of 6 months to sublease current rental/leased properties
e.g., new audit function, transition support, etc.

30% of base years revenues
Sell of 40 retail properties averaging $150K each. NSLC retains and continues to operate the distribution centre and retained DC equipment

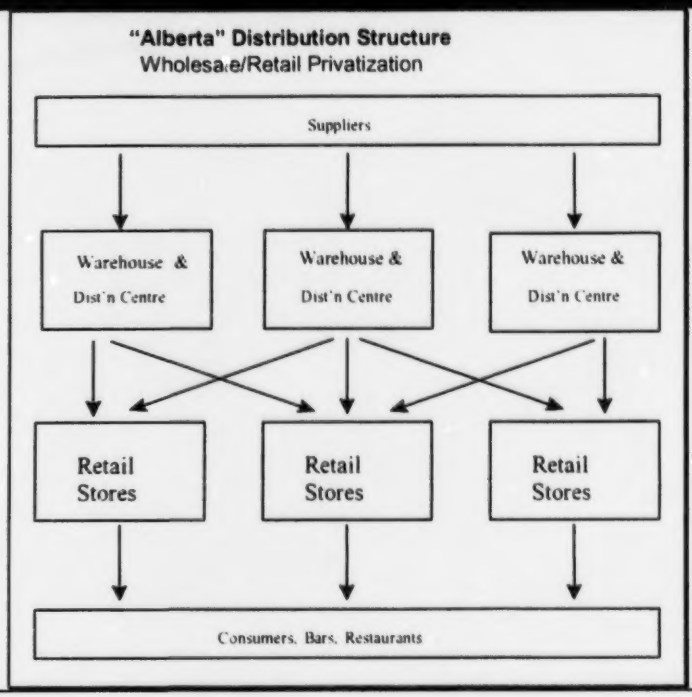
10 Year Net Present Value @ 6.75% **$984 248**

[redacted]

The "Alberta D Model" proposes that all aspects of the retail liquor operations be privatized. The privatized retail outlets are not required to be a stand-alone operation and may be operated within a grocery store, convenience store or other retail outlet. NSLC will retain its role as sole wholesaler and importer of liquor in Nova Scotia. The procurement, consolidation, shipment and ownership of all inventory will be the responsibility of the suppliers and/or agents representing the suppliers. NSLC may contract out the management and operation of the warehouse.

Retail	
Estimated total number of retail outlets	• Number of retail outlets will be driven by market conditions. • Estimated total number of outlets = 300
Estimated initial retail price change	• The market forces will determine final retail price to customers under this model. Liquor stores are free to set their own retail prices. • Experience with this model shows that the retail prices can be expected to decrease over a period of time.
Service levels	• Categories of products would include spirits, wine, beer and coolers. • Minimum limits based on market size and customer profile. • Chilled products at retailer's option • Operators cater to customers tastes in their region • Expanded retail hours for private stores • Shorter travel distances and more convenient locations for stores • Increased coverage of communities • Increased number of outlets in most communities
Anticipated Impact on number of product listings	• Open to competition • Experience in other jurisdictions resulted in a significant increase (i.e., Alberta experienced a 300% increase) • The number of products available at retail will vary from store to store. • This is not anticipated to be unlimited and must be managed within the Nova Scotia environment and infrastructure.

[redacted]	
Wholesale/Distribution	
Wholesale Operations	• The NSLC will adopt a consignment system of inventory management. Under this system, the ordering, consolidation, shipment, and ownership of all inventory are the responsibility of suppliers and/or agents representing the suppliers. • The NSLC will remit payment to the suppliers and/or their agents within seven days of the product being sold o retailers or other businesses. • Suppliers and/or their agents determine which products will be sold in Nova Scotia. Agents and manufacturers are responsible for promoting and marketing their products to retailers. • The NSLC will contract out the operation of the warehouse (while still retaining its role as sole wholesaler and importer of liquor in Nova Scotia)



Social Impact	
• Sale of liquor to minors and intoxicated persons • Sale of illegal liquor • Increased criminal activity • Increased liquor consumption and drinking and driving incidents	• Private sector has been found to be responsible with similar private store models in other provinces. • Experience shows that there have not been any more incidents after privatization than there were prior to privatization.
Financial/Economic Impact	
Impact on revenue to government	• Experience with this model shows that government revenue has been maintained through flat mark-up on wholesale prices plus annual license fee revenue.
10-year Net income to government	• $1,018 M
Timing/Pattern of Cashflow to Government	• On-going flat mark-up revenues. • Annual license revenues
NSLC staff impacted	• Staff affected = all unionized staff and 50% of non-union.

	• Experience has shown that likely there will be job transition for some of the NSLC employees
Estimated employment creation	• Experience in other jurisdictions has shown a significant increase in total employment for the industry.
Job wages	• Average wage rates fall as retail wages shift towards traditional retail rates and away from union rates • This is offset by the increase in the number of jobs.

Additional economic spin-offs	• Privatization has been a small business success story in other jurisdictions.
	• A significant number of new businesses
	• Few store failures
	• Many new secondary businesses have developed or obtained additional work as a result of privatization
	  • Liquor agencies
	  • Beer coolers/refrigeration unit
	  • Renovations
	  • Cash registers/computers
	  • Shelving
	  • Computer software
	  • Insurance
	  • Space rentals
	  • Etc.

Transition Issues	
Strategy	• Low barriers to entry for retail licenses fosters competition • Provide continued, effective regulatory control • Ensure revenue stability for the NSLC/Province • Create retail model delivering improved service to consumers • Create environment for relatively stable liquor pricing • Effectively integrate privately operated retail operations into the liquor system • Dispose of NSLC properties at appraised market values. • Create an environment in which jobs in the private sector would exceed the number of employees employed by the NSLC. • Make a positive overall contribution to the NS economy.
Revenues/Costs	• $14.6 M in severance costs • $2 M in lease termination costs • $ 2 M in new system and transition costs • $ 6 M proceeds on disposals
Constraints	• Legislation regarding successor rights could impact this option • Ensure there is no competitive environment between NSLC and private stores. • The new private stores will manage most effectively in a free market retail environment where there are no benchmarks for pricing and product selection set by competing government stores.
Timeline	• 6 months to 2 years

Market Infrastructure Capacity	• Current NS infrastructure has the ability to provide retail and wholesale operations.
Role of Government	
Role of the Government in protecting the social well being of Nova Scotians	• NSLC will continue to regulate and license the liquor industry • NSLC will focus on issues beyond compliance such as alcohol education and enforcement. There will continue to be a licensing and inspection division and in most cases an audit division responsible for monitoring and periodically auditing the wholesalers and retailers for compliance.

Level of Government Management	• Privatized retailing of liquor is a simpler system to manage than the government system:
	  • Staffing complement is reduced
	  • Less union contracts to administer
	  • Most capital construction and maintenance disappear
	  • Cash handling is much simpler
	  • Stock losses are no longer an issue

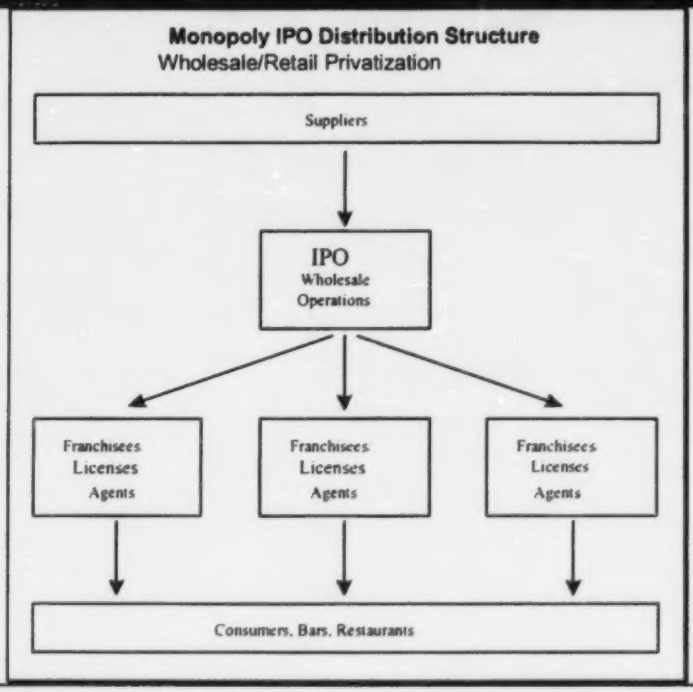
Province of Nova Scotia
Beverage Alcohol
Alternative Business Models

($, 000)	1999/2000		1	2	3	4	5	6	7	8	9	10	
Costs													
Labour (salaries and benefits)													
Non Union	1 3%	4 906	2 453	2 453	2 453	2 453	2 453	2 453	2 453	2 453	2 453	2 453	50% of staff retained
Union Warehouse and Distribo	0 4%	1 464	1 479	1 494	1 509	1 524	1 539	1 555	1 570	1 586	1 602	1 618	Proportional to all retail sales no reduction in staff
Retail Store Casuals	0 3%	1 025											Retail stores are privatized
Union Retail Outlets	6 0%	21 967											Retail stores are privatized
Union Head Office	0 3%	1 098											Do not need a union head office after retail and wholesale operations are privatized
Occupancy													
Utilities		1 435	397	397	397	397	397	397	397	397	397	397	Proportional to leasefree costs
Rent/lease		5 556	1 536	1 536	1 536	1 536	1 536	1 536	1 536	1 536	1 536	1 536	NSLC retains DC and admin space but disposes of retail outlets
Taxes		1 723	476	476	476	476	476	476	476	476	476	476	Proportional to leasefree costs
Insurance		58	16	16	16	16	16	16	16	16	16	16	Proportional to leasefree costs
Warehouse and Distribution	0 07%	256	259	261	264	267	269	272	275	278	280	283	Warehouse operation remains with NSLC
Freight	0 19%	696	703	710	717	724	731	738	746	753	761	768	Distribution functions remain with NSLC
Travel	0 08%	293	30	30	30	31	31	31	31	32	32	32	10% remains for head office staff
Training	0 05%	183											Eliminate majority of budget associated with training of retail staff
R&M/Service Contracts	0 43%	1 574	316	321	324	328	331	334	338	341	344	348	Estimated 20% for DC
Early Retirement/PSA	0 16%	586	116	120	121	122	123	124	126	127	128	129	Estimated 20% of the salary remains
Bank and Debit/Credit Card Chr	0 24%	870	89	90	91	91	92	93	94	95	96	97	Reduced to 10% retail processing is now conducted through private retail outlets
Supplies/Clothing/Safety Shoes	0 16%	586	116	120	121	122	123	124	126	127	128	129	Reduce to 20% for administrative supplies Clothing and safety related wear are not required when operations are privatized
Other	0 05%	183	185	187	189	190	192	194	196	198	200	202	Remains consistent with base case
Total Costs		**44 471**	**8 177**	**8 210**	**8 243**	**8 277**	**8 311**	**8 345**	**8 380**	**8 415**	**8 450**	**8 486**	
Revenues													
Tax / Mark Up			147 090	148 560	150 046	151 547	153 062	154 593	156 139	157 700	159 277	160 870	Leaving 10% margin for retailers
License fees $700/annum			140	140	140	140	140	140	140	140	140	140	200 licensed retail outlets
Total Revenues			**147 230**	**148 700**	**150 186**	**151 687**	**153 202**	**154 733**	**156 279**	**157 840**	**159 417**	**161 010**	
10 Year Net Present Value @ 6 75%		$ 1 029 574											
Transition Costs / Revenue													
Costs													
Severance Packages and Related Costs			14 589										All unionize staff receive severance packages except warehouse and distribution (adjusted by 28 DC/376 HQ T = 93%) 50% of non union receive severance packages casual and regular part time receive no severance
Termination of Lease			2 000										An average of 6 months to sublease current rental/leased properties
Development of new internal systems/business model			2 000										e g new audit function transition support etc
Revenue													
Property Sale (Retail Stores)			5 972										Sell of 40 retail properties averaging $150K each NSLC retains and continues to operate the distribution centre and related DC equipment
Total Transition Revenue / (Costs)			**(12 617)**	-	-	-	-	-	-	-	-	-	
10 Year Net Present Value @ 6 75%		$ 1 017 755											

[redacted]

The Monopoly option is one which assumes the Government will sell off ownership of the "Liquor Corporation" through an initial public offering of stock. This sale would generate initial cash flows to the Province equal to the value of the "exclusivity-right" to investors. The new owner could then grant licenses or franchise rights to retailers.

Retail	
Estimated total number of retail outlets	• Driven by market forces • Estimated at 300 outlets
Estimated initial retail price change	• NSLC would no longer control the retail prices. The prices would be set by market forces. • Prices would not be expected to decrease initially.
Service levels	• Operators cater to customers tastes in their region • Expanded retail hours for stores • Shorter travel distances and more convenient locations for stores • Increased number of outlets in rural areas
Anticipated Impact on number of product listings	• Market demand drives number of products listed • Other jurisdictions have experienced listing increases of 300% in privatized market. • There is no restriction on the products carried under this model with all major categories being represented (Beer, wine, spirits, coolers, ciders, etc.)
Wholesale/Distribution	
Wholesale Operations	• The new owner would own and operate the wholesale operation.



Social Impact	
• Sale of liquor to minors and intoxicated persons • Sale of illegal liquor • Increased criminal activity • Increased liquor consumption and drinking and driving incidents	• Private sector has been found to be responsible with similar private store models in other provinces. • Experience shows that there have not been any more incidents after privatization than there were prior to privatization.
Financial/Economic Impact	
Impact on revenue to government	• Revenues maintained through IPO proceeds and corporate taxes.
10-year Net income to government	• $472 M
Timing/Pattern of Cashflow to Government	• Significant up-front initial cash flow to government
NSLC staff impacted	• All NSLC staff except 10% administrative staff will be impacted
Estimated employment creation	• Experience base upon other privatized models has shown an increase in

	overall # of jobs in the liquor industry.
Job wages	• Wages can be expected to be lower than current union rates and settle more in-line with current retail levels • This would be offset with the increase in the number of jobs.
Additional economic spin-offs	• Privatization has been a small business success story in other jurisdictions. • A significant number of new businesses • Few store failures • Other jurisdictions have experienced an effect of secondary businesses developing or obtained additional work as a result of privatization.

Transition Issues	
Strategy	• Low barriers to entry for retail licenses fosters competition • Provide continued, effective regulatory control • Ensure revenue stability for the NSLC/Province • Create retail model delivering improved service to consumers • Create environment for relatively stable liquor pricing • Effectively integrate privately operated retail operations into the liquor system • Dispose of NSLC properties at appraised market values. • Create an environment in which jobs in the private sector would exceed the number of employees employed by the NSLC. • Make a positive overall contribution to the NS economy.
Costs	• $16.9 M Severance costs • $2 M lease termination • $2 M new system
Constraints	• Legislation regarding successor rights could impact this option • Ensure there is no competitive environment between NSLC and private stores. • The new private stores will manage most effectively in a free market retail environment where there are no benchmarks for pricing and product selection set by competing government stores.
Timeline	• 1-2 years

Market Infrastructure Capacity	• Private Sector is capable of providing the operational side of the liquor business. • Wholesale side of operation can be conducted by owner or contracted out. • Distribution, warehousing and retail capabilities are already resident in the region.
Role of Government	
Role of the Government in protecting the social well being of Nova Scotians	• NSLC would continue to regulate the liquor industry • NSLC will focus on issues beyond compliance such as alcohol education and enforcement. There will continue to be an inspection division and in most cases an audit division responsible for monitoring and periodically auditing the wholesalers and retailers for compliance.

Province of Nova Scotia
Beverage Alcohol
Alternative Business Models

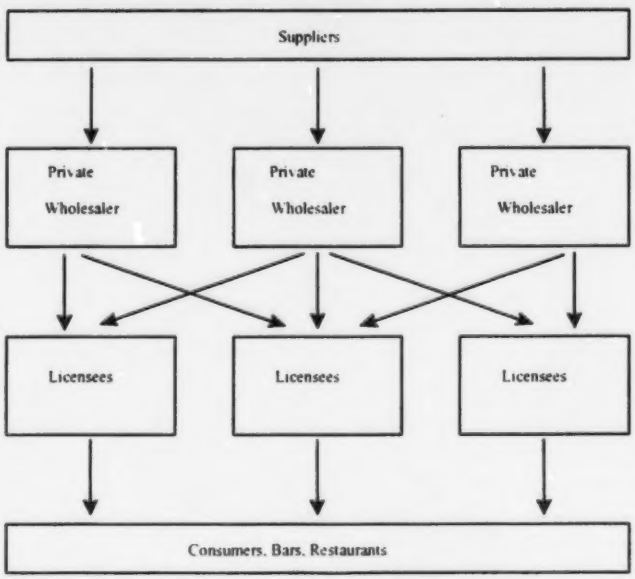
($, 000)	1999/2000		1	2	3	4	5	6	7	8	9	10	
Costs													
Labour (salaries and benefits)													
Non Union	1 3%	4 906	491	491	491	491	491	491	491	491	491	491	Reduced to 10%.
Union Warehouse and Dis	0 4%	1 464	-	-	-	-	-	-	-	-	-	-	
Retail Store Casuals	0 3%	1 025	-	-	-	-	-	-	-	-	-	-	
Union Retail Outlets	6 0%	21 967	-	-	-	-	-	-	-	-	-	-	
Union Head Office	0 3%	1 098	-	-	-	-	-	-	-	-	-	-	
Occupancy													
Utilities		1 435	26	26	26	26	26	26	26	26	26	26	Proportional to lease/rent costs.
Rent/lease		5 558	100	100	100	100	100	100	100	100	100	100	Retain administrative office space for reduced admin staff
Taxes		1 723	31	31	31	31	31	31	31	31	31	31	Proportional to lease/rent costs.
Insurance		58	1	1	1	1	1	1	1	1	1	1	Proportional to lease/rent costs.
Warehouse and Distribution	0 07%	256	-	-	-	-	-	-	-	-	-	-	
Freight	0 19%	696	-	-	-	-	-	-	-	-	-	-	
Travel	0 08%	293	30	30	30	30	31	31	31	32	32	32	Reduced to 10%
Training	0 05%	183	18	19	19	19	19	19	20	20	20	20	Reduced to 10%
R&M/Service Contracts	0 43%	1 574	-	-	-	-	-	-	-	-	-	-	
Early Retirement/PSA	0 16%	586	-	-	-	-	-	-	-	-	-	-	
Bank and Debit/Credit Card (	0 24%	879	-	-	-	-	-	-	-	-	-	-	
Supplies/Clothing/Safety Shc	0 16%	586	-	-	-	-	-	-	-	-	-	-	
Other	0 05%	183	9	9	9	10	10	10	10	10	10	10	Reduce to 5%.
Total Costs		**44 471**	**706**	**706**	**707**	**708**	**708**	**709**	**709**	**710**	**711**	**711**	
Revenue													
10 Year Net Present Value @ 6 75%		**$ (5 031)**											
Transition Costs / Revenue													
Costs													
Severance Packages and Related Costs			16 876	-	-	-	-	-	-	-	-	-	All unionize and 90% of non-unionized receive severance packages. casual and regular part time staff receive no severance benefits.
Termination of Lease			2 000	-	-	-	-	-	-	-	-	-	An average of 6 months to sublease current rental/leased properties.
Development of new internal systems/business mc			2 000	-	-	-	-	-	-	-	-	-	e g , new audit function. transition support. etc
Revenue													
IPO Monopoly			529 863	-	-	-	-	-	-	-	-	-	10 year base case net inflow discounted at 15%.
Total Transition Revenue / (Costs)			508 987	-	-	-	-	-	-	-	-	-	
10 Year Net Present Value @ 6 75%		**471 772**											

[redacted]

The Private Sector Model is envisioned as an option with both wholesale and retail fully privatized. The NSLC/Government would issue licenses to both wholesalers and retailers on an annual basis. The number of licenses would be driven by market forces.	
Retail	
Estimated total number of retail outlets	• Driven by market forces • Estimated retail outlets = 300
Estimated initial retail price change	• NSLC does not control the retail prices. They are set by market forces • With the revenue neutral objective, the experience in other jurisdictions has found there to be no significant decrease in prices.
Service levels	• Operators cater to customers tastes in their region • Expanded retail hours for stores • Shorter travel distances and more convenient locations for stores • Increased number of outlets in rural areas
Anticipated Impact on number of product listings	• Market demand drives the number of products listed • There is no restriction on the products carried under this model with all major categories being represented (Beer, wine, spirits, coolers, ciders, etc.) • Experience in other privatized jurisdictions is that the number of listings in the system has increased significantly (i.e., Alberta experienced a 300% increase).
Wholesale/Distribution	
Wholesale Operations	• Wholesale operations are owned and operated by private wholesalers. • The number of wholesalers is driven by what the market will allow.

[redacted]

Full Privatization Distribution Structure
Wholesale/Retail Privatization



Social Impact	
• Sale of liquor to minors and intoxicated persons • Sale of illegal liquor • Increased criminal activity • Increased liquor consumption and drinking and driving incidents	• Private sector has been found to be responsible with similar private store models in other provinces. • Experience shows that there have not been any more incidents after privatization than there were prior to privatization.
Financial/Economic Impact	
Impact on revenue to government	• Revenues are maintained through a flat mark-up and annual license revenue from wholesalers and retailers.
10-year Net income to government	• $932 M
Timing/Pattern of Cash flow to Government	• Cashflows are received on an on-going basis through the flat tax. • Annual revenues are received from the issuance of licenses.
NSLC staff impacted	• All NSLC staff except 25% administrative staff will be impacted

Estimated employment creation	• Experience has shown an increase in overall # of jobs in the liquor industry
Job wages	• Wages can be expected to be lower than current union rates and settle more in-line with current retail levels • This will be offset with the increase in the number of jobs.

Additional economic spin-offs	• Privatization has been a small business success story in other jurisdictions.
	• A significant number of new businesses
	• Few store failures
	• Many new secondary businesses have developed or obtained additional work as a result of privatization
	  • Liquor agencies
	  • Beer coolers/refrigeration unit
	  • Renovations
	  • Cash registers/computers
	  • Shelving
	  • Computer software
	  • Insurance
	  • Space rentals
	  • Etc.

Transition Issues	
Strategy	• Low barriers to entry for retail licenses fosters competition • Provide continued, effective regulatory control • Ensure revenue stability for the NSLC/Province • Create retail model delivering improved service to consumers • Create environment for relatively stable liquor pricing • Effectively integrate privately operated retail operations into the liquor system • Dispose of NSLC properties at appraised market values. • Create an environment in which jobs in the private sector would exceed the number of employees employed by the NSLC. • Make a positive overall contribution to the NS economy.
Costs	• $16.4 M in severance costs • $ 3.5 M in lease termination costs • $ 9.9 M proceeds on sale of assets
Constraints	• It will be necessary to change some government legislation and/or policy/programs for some forms of business i.e., off premises, liquor outlets. All changes should be minor in nature • Legislation regarding successor rights could impact this option • Ensure there is no competitive environment between NSLC and private stores. • The new private stores will manage most effectively in a free market retail environment where there are no benchmarks for pricing and product

	selection set by competing government stores.
Timeline	• Medium 1-2 years
Market Infrastructure Capacity	• Private Sector is capable of providing the operational side of the liquor business • Wholesale side of operation can be conducted by owner or contracted out. • Distribution, warehousing and retail capabilities are already resident in the region
Role of Government	
Role of the Government in protecting the social well being of Nova Scotians	• NSLC would continue to regulate the liquor industry • NSLC will focus on issues beyond compliance such as alcohol education and enforcement. There will continue to be an inspection division and in most cases an audit division responsible for monitoring and periodically auditing the wholesalers and retailers for compliance.

Province of Nova Scotia
Beverage Alcohol
Alternative Business Models

($, 000)		1999/2000	1	2	3	4	5	6	7	8	9	10	
Costs													
Labour (salaries and benefits)													
Non Union	1 3%	4 906	1 239	1 239	1 239	1 239	1 239	1 239	1 239	1 239	1 239	1 239	Reduce to 25%, management, control and monitoring functions.
Union Warehouse and Distributio	0 4%	1 464	-	-	-	-	-	-	-	-	-	-	
Retail Store Casuals	0 3%	1 025											
Union Retail Outlets	6 0%	21 967											
Union Head Office	0 3%	1 098											
Occupancy													
Utilities		1 435	26	26	26	26	26	26	26	26	26	26	Proportional to lease/rent costs.
Rent/lease		5 558	100	100	100	100	100	100	100	100	100	100	Retain administrative office space for reduced admin staff
Taxes		1 723	31	31	31	31	31	31	31	31	31	31	Proportional to lease/rent costs.
Insurance		56	1	1	1	1	1	1	1	1	1	1	Proportional to lease/rent costs.
Warehouse and Distribution	0 07%	256	-	-	-	-	-	-	-	-	-	-	
Freight	0 19%	696											
Travel	0 08%	293	74	75	75	76	77	78	79	79	80	81	Reduce travel to 25% for new levels of admin staff
Training	0 05%	183	46	47	47	48	48	49	49	50	50	51	Reduce training budget to 25%, used for administrative staff
R&M/Service Contracts	0 43%	1 574	-	-	-	-	-	-	-	-	-	-	
Early Retirement/PSA	0 16%	586	-	-	-	-	-	-	-	-	-	-	
Bank and Debit/Credit Card Charge	0 24%	879	-	-	-	-	-	-	-	-	-	-	
Supplies/Clothing/Safety Shoes	0 16%	586	59	60	60	61	62	62	63	63	64	65	Reduce to 10% - office supplies, etc..
Other	0 05%	183	18	19	19	19	19	19	20	20	20	20	Reduce to 10% for items that do not fall within items identified above (e g , service contracts).
Total Costs		**44 471**	**1 594**	**1 596**	**1 598**	**1 600**	**1 602**	**1 605**	**1 607**	**1 609**	**1 611**	**1 613**	
Revenues													
Retail license fees (500 retailers)			175	175	175	175	175	175	175	175	175	175	250 retailers @ $700 per annum
Wholesale license fees (6 wholesalers)			30	30	30	30	30	30	30	30	30	30	6 wholesalers @ $5,000 per annum
Tax / Mark-Up			128 601	129 887	131 186	132 497	133 822	135 161	136 512	137 877	139 256	140 649	Leaving a 15% margin for retail & wholesale combined
Total Revenues			**128 806**	**130 092**	**131 391**	**132 702**	**134 027**	**135 366**	**136 717**	**138 082**	**139 461**	**140 854**	
10 Year Net Present Value @ 6 75%		**$ 940 991**											
Transition Costs / Revenue													
Costs													
Severance Packages and Related Costs			16 384	-	-	-	-	-	-	-	-	-	All unionize and 75% of non-unionized staff receive severance packages, casual and regular part-time staff receive no severance benefits.
Termination of Lease			3 500	-	-					-	-	-	An average of 6 months to sublease current rental/leased properties, 1 year to sublease distribution and warehouse facility
Revenue													
Property Sale (Retail Stores)			9 936										Sell of 40 retail properties averaging $150K each.
Total Transition Revenue / (Costs)			(9 948)	-	-	-	-	-	-	-	-	-	
10 Year Net Present Value @ 6 75%		**$ 931 673**											

Province of Nova Scotia
Alcohol Beverage
NPV Comparison of Alternative Models

		Option A NSLC		Option C "Quebec Type Model"	Option D1 Franchise			
	Revenues	369 776	369 776	369 776	117 657	147 230	-	128 806
	Costs	230 450	230 450	252 111	8 229	8 177	706	1 594
	Net Inflow (Outflow)	139 326	139 326	117 665	109 429	139 053	(706)	127 211
	Transition Revenue (Costs)	-	-	(4 481)	97 217	(12 617)	508 987	(9 948)
Year 1	Net Inflow (Outflow)	139 326	139 326	113 184	206 646	126 436	508 281	117 264
Year 2	Net Inflow (Outflow)	140 893	141 859	118 990	110 570	140 490	(706)	128 495
Year 3	Net Inflow (Outflow)	142 476	145 175	120 327	111 723	141 943	(707)	129 792
Year 4	Net Inflow (Outflow)	144 075	147 542	121 678	112 888	143 410	(708)	131 102
Year 5	Net Inflow (Outflow)	145 690	149 156	123 043	114 064	144 891	(708)	132 425
		712 460	723 058	597 222	655 891	697 169	505 453	639 078
NPV - 5 years		**587 321**	**595 557**	**491 820**	**551 664**	**573 365**	**473 885**	**525 789**
Rank		**2**	**1**	**6**	**4**	**3**	**7**	**5**
Year 6	Net Inflow (Outflow)	147 321	150 788	124 421	115 252	146 387	(709)	133 761
Year 7	Net Inflow (Outflow)	148 968	152 435	125 813	116 452	147 899	(709)	135 111
Year 8	Net Inflow (Outflow)	150 632	154 099	127 219	117 663	149 425	(710)	136 474
Year 9	Net Inflow (Outflow)	152 313	155 779	128 639	121 007	150 967	(711)	137 850
Year 10	Net Inflow (Outflow)	154 010	157 476	130 073	122 964	152 524	(711)	139 241
		1 465 705	1 493 634	1 233 388	1 249 229	1 444 370	501 903	1 321 515
NPV - 10 years		**1 035 256**	**1 053 814**	**870 131**	**904 248**	**1 017 755**	**471 772**	**931 673**
Rank		2	1	6	5	3	7	4

Province of Nova Scotia
Alcohol Beverage
NPV Comparison of Alternative Models

PricewaterhouseCoopers

Net Present Value	Option A NSLC		Option C "Quebec Type Model"	Option D1 [illegible]			
Including Transition Costs / Revenue							
NPV	1 035 256	1 053 814	870 131	904 248	1 017 755	471 772	931 673
Ranking	2	1	6	5	3	7	4
Without Transition Costs / Revenue							
NPV	1 035 256	1 055 119	874 328	813 177	1 029 574	[illegible]	940 991
Ranking	2	1	5	6	3	7	4
Assumptions							
NPV	6 75%	6 75%	6 75%	6 75%	6 75%	6 75%	6 75%
Volume	1%	1%	1%	1%	1%	1%	1%
Inflation	0%	0%	0%	0%	0%	0%	0%
Price changes	0%	0%	0%	0%	0%	0%	0%
Margins							
Wholesale	-		8%		-		
Beer		-	8%		-		-
Wine	-	-	12%	-	-	-	-
Retail	-		-	18%	10%	-	-
Combined Wholesale/Retail	-	-	-	-	-	-	15%
Agency Commission	-	8%	-	-	-	-	-
Termination of Lease	-	6	-	6	6	6	6
Assessed Property Sale	-	37%	-	40%	40%	-	40%
IPO Discount Rate	-	-	-	-	-	15%	-
Characteristics							
Retail Pricing	NSLC	NSLC	NSLC sets minimum retail price	NSLC	Private Retailers	Monopoly NSLC Regulated	Private Retailers
Product Listings	NSLC	NSLC	NSLC	NSLC	Private Retailers	Monopoly	Private Retailers

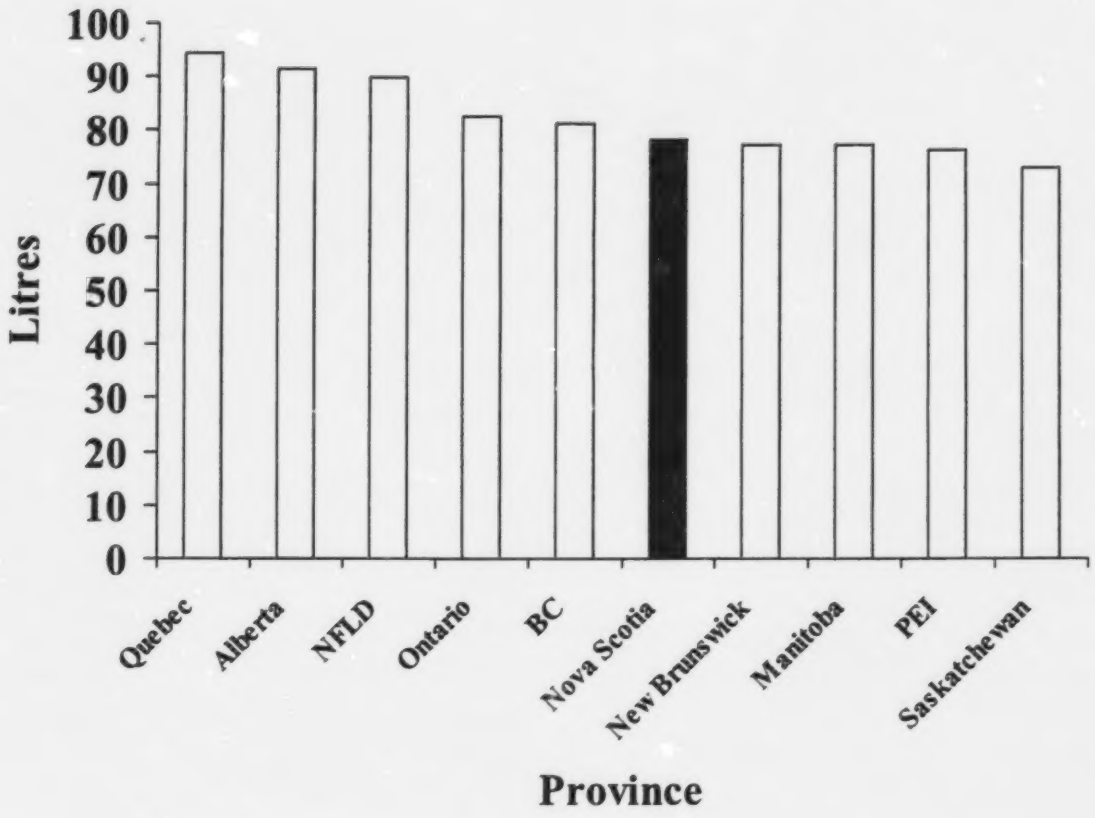
Province of Nova Scotia
Alcohol Beverage
Sensitivity Analysis

PricewaterhouseCoopers

		Option A NSLC				Option C "Quebec Type Model"		Option D1							
		NPV	Y1 Inflow	NPV	Y1 Inflow	NPV	Y1 Inflow	NPV	Y1 Inflow	NPV	Y1 Inflow	NPV	Y1 Inflow	NPV	Y1 Inflow
Volume Change															
Base	0%	568 702	137 774	575 232	138 100	476 087	111 873	538 103	205 516	556 284	125 012	436 385	468 244	510 586	116 005
Revised	1%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Delta	1%	18 620	1 552	18 620	1 552	15 733	1 311	13 561	1 130	17 081	1 424	37 500	40 038	15 203	1 259
Price Change															
Base	0%	568 702	137 774	575 232	138 100	476 087	111 873	538 103	205 516	556 284	125 012	436 385	468 244	510 586	116 005
Revised	1%	609 382	141 164	615 913	141 491	513 881	115 023	573 725	208 485	595 426	128 274	518 324	555 720	547 849	119 102
Delta	1%	40 680	3 391	40 680	3 391	37 794	3 150	35 622	2 969	39 142	3 262	81 938	87 476	37 263	3 098
Termination of Lease in Months															
Base	6	1 035 256	139 326	1 053 814	139 326	870 131	113 184	904 248	206 646	1 017 755	126 436	471 772	508 281	931 673	117 264
Revised	12	1 035 256	139 326	1 053 814	139 326	870 131	113 184	904 248	206 646	1 017 755	126 436	471 772	508 281	931 673	117 264
Delta	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agency % Commission															
Base	9%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Revised	8%	587 321	139 326	594 921	139 742	491 820	113 184	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Delta	-1%	-	-	1 069	90	-	-	-	-	-	-	-	-	-	-
Severance Package % of Employees															
Base	80%	587 321	139 326	594 347	139 772	492 472	113 881	554 398	209 564	576 098	129 353	477 047	511 657	528 858	120 540
Revised	100%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Delta	20%	-	-	(495)	(120)	(652)	(696)	(2 733)	(2 918)	(2 733)	(2 918)	(3 162)	(3 375)	(3 070)	(3 277)
Franchise Retail Margin															
Base	15%	587 321	139 326	593 852	139 652	491 820	113 184	598 319	217 739	573 365	126 436	473 885	508 281	525 789	117 264
Revised	18%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Delta	3%	-	-	-	-	-	-	(46 655)	(11 093)	-	-	-	-	-	-
Alberta Retail Margin															
Base	10%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Revised	12%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	542 262	119 040	473 885	508 281	525 789	117 264
Delta	2%	-	-	-	-	-	-	-	-	(31 103)	(7 396)	-	-	-	-
Private Retail Margin															
Base	15%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Revised	18%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	573 365	126 436	473 885	508 281	479 133	106 170
Delta	3%	-	-	-	-	-	-	-	-	-	-	-	-	(46 655)	(11 093)
Quebec Retail Wine Margin															
Base	10%	587 321	139 326	593 852	139 652	493 668	113 624	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Revised	12%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Delta	2%	-	-	-	-	(1 848)	(439)	-	-	-	-	-	-	-	-
Quebec Retail Beer Margin															
Base	6%	587 321	139 326	593 852	139 652	505 536	116 446	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Revised	8%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Delta	2%	-	-	-	-	(13 716)	(3 261)	-	-	-	-	-	-	-	-
Quebec Wholesale Mark-Up															
Base	6%	587 321	139 326	593 852	139 652	505 258	116 380	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Revised	8%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Delta	2%	-	-	-	-	(13 438)	(3 195)	-	-	-	-	-	-	-	-
IPO Discount Rate															
Base	12.5%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	573 365	126 436	473 885	508 281	525 789	117 264
Revised	15.0%	587 321	139 326	593 852	139 652	491 820	113 184	551 664	206 646	573 365	126 436	564 360	604 864	525 789	117 264
Delta	2.5%	-	-	-	-	-	-	-	-	-	-	90 475	96 582	-	-

Nova Scotia Liquor Commission
1998/99 Volume of Beer Sales in Canada

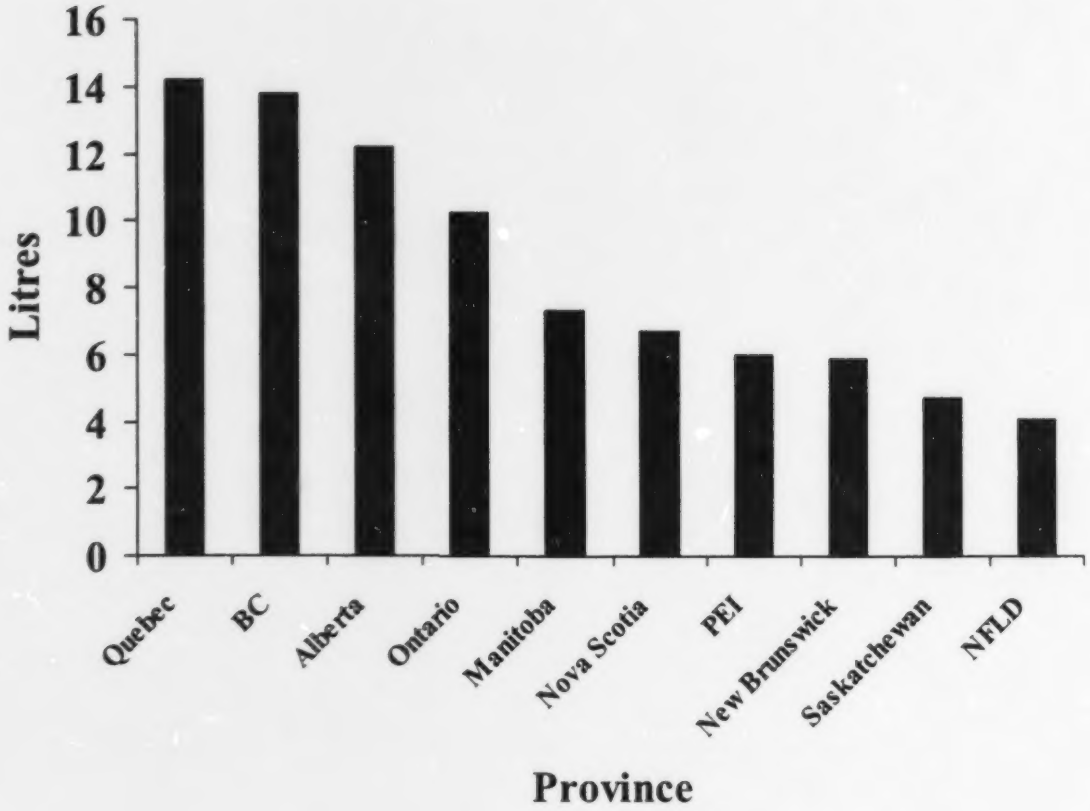
Per capita by province



Source: Statistics Canada, The Control and Sale of Alcoholic Beverages in Canada

Nova Scotia Liquor Commission
1998/99 Volume of Wine Sales in Canada

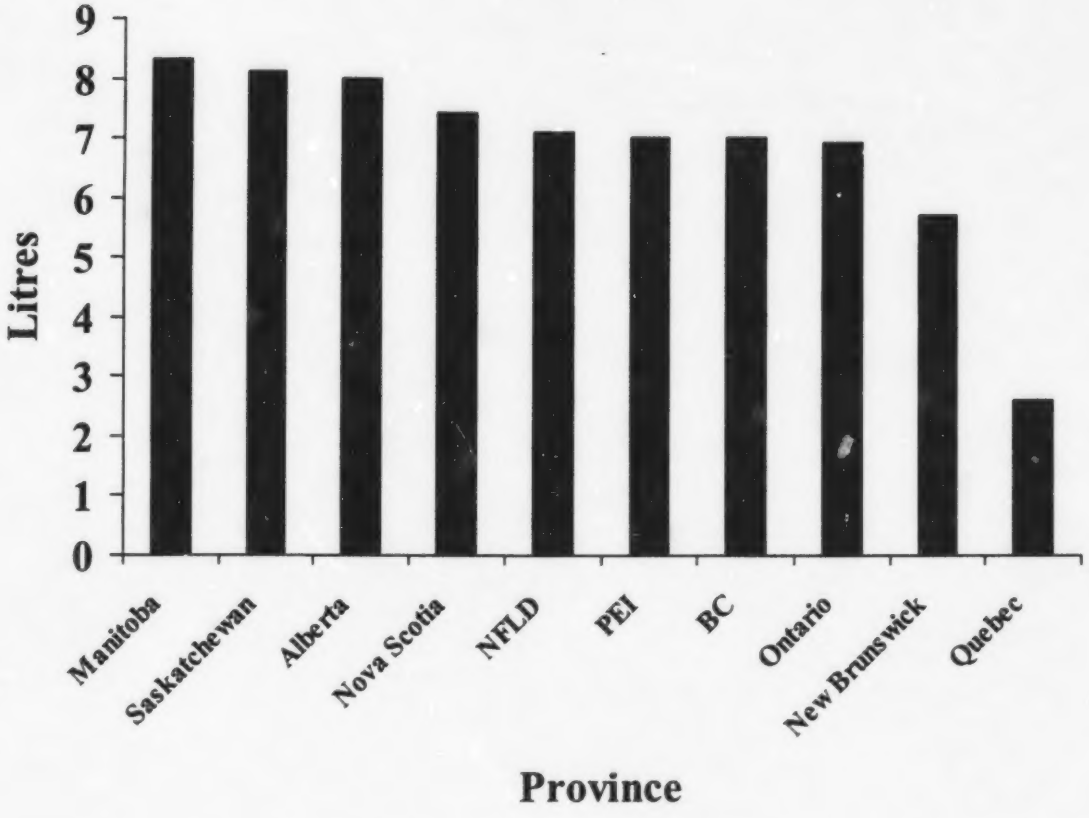
Per capita by province



Source: Statistics Canada, The Control
and Sale of Alcoholic Beverages in Canada

Nova Scotia Liquor Commission
1998/99 Volume of Spirits Sales in Canada

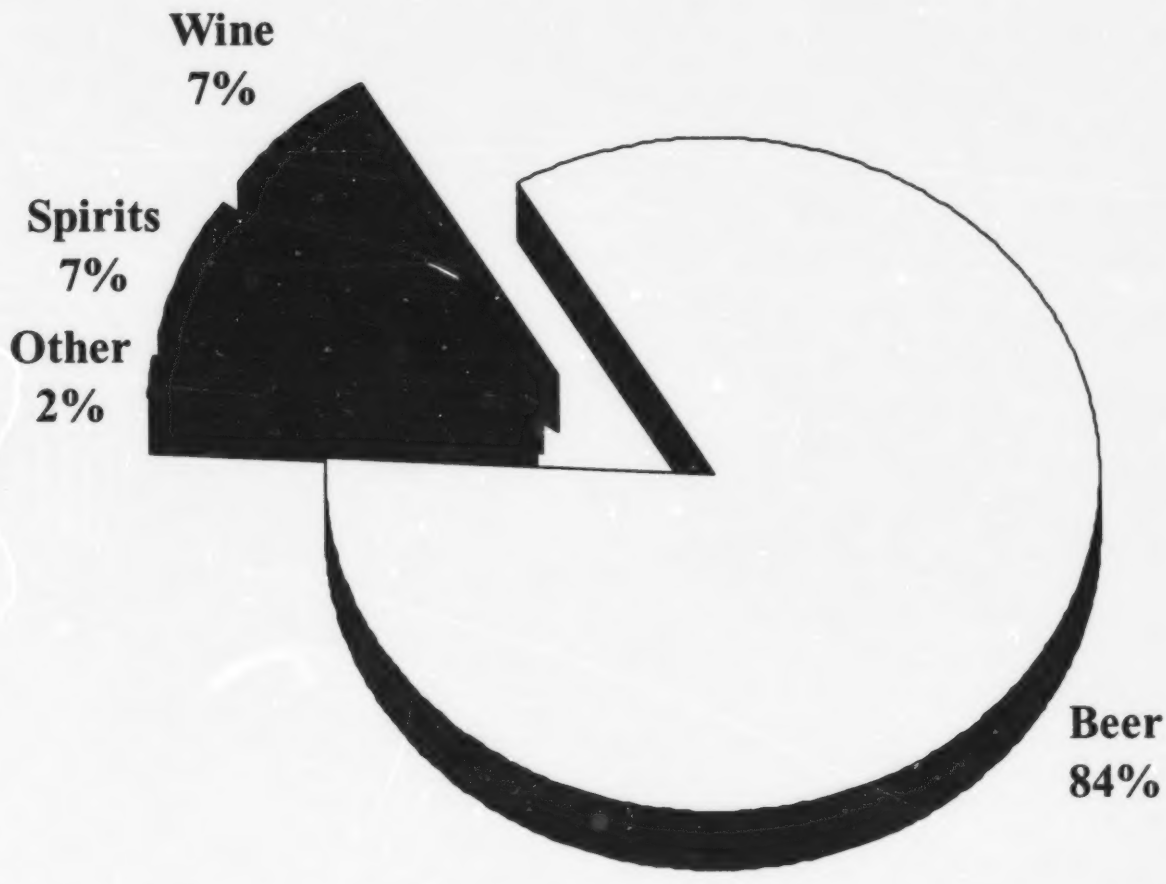
Per capita by province



Source: Statistics Canada, The Control and Sale of Alcoholic Beverages in Canada

Nova Scotia Liquor Commission
Volume - By Product Segment

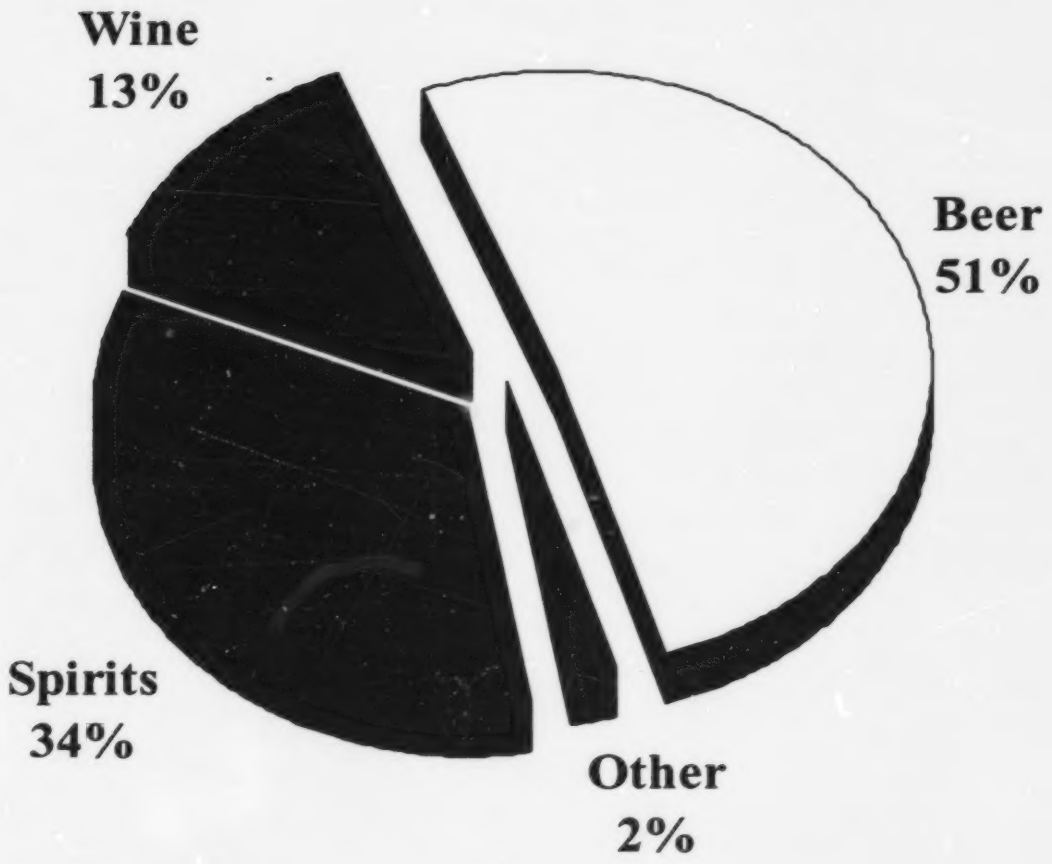
Fiscal 1999/2000



Source: NSLC Financial/Operational Data

Nova Scotia Liquor Commission
Revenue $ - By Product Segment

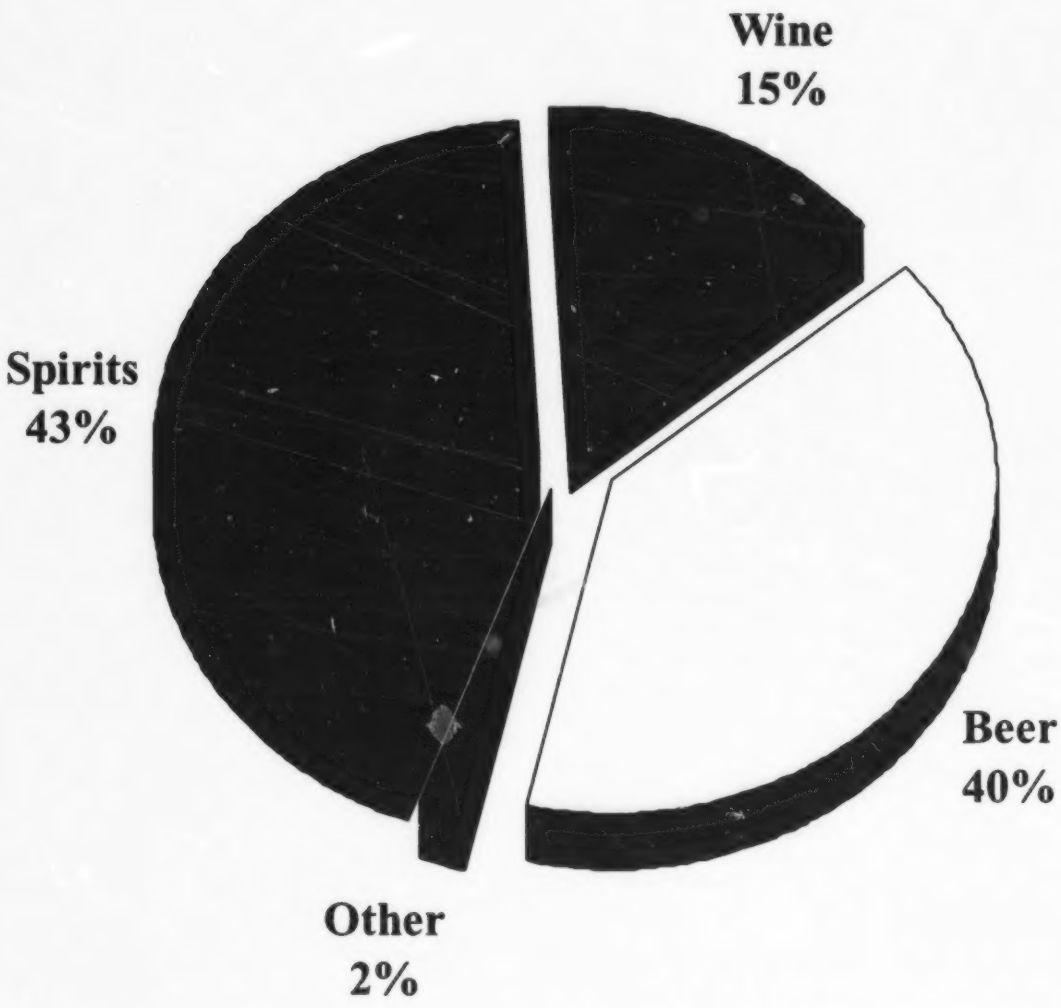
Fiscal 1999/2000



Source: NSLC Financial/Operational Data

Nova Scotia Liquor Commission
Gross Profit $ - By Product Segment

Fiscal 1999/2000



Source: NSLC Financial/Operational Data

Nova Scotia Liquor Commission

Fiscal 1999/2000

Product	Litres	Gross Profit Per Litre	Gross Profit
Spirits	4,998,031	$ 15.85	$ 79,241,851
Wine	4,915,234	$ 5.55	$ 27,302,489
Beer	59,503,453	$ 1.21	$ 72,284,899
Other	1,297,689	$ 2.53	$ 3,415,426
			$182,244,666

Nova Scotia Liquor Commission
Financial Results

Year Ended March 31, 2000

	$ (Millions)	%
Sales	371.4	
Cost of Products Sold	187.6	50.5
Gross Margin	183.8	
Expenses	48.6	13.1
Earnings	135.2	36.4

PROVINCE OF NOVA SCOTIA

BEVERAGE ALCOHOL

SOCIO-ECONOMIC FACTORS

- **Location**
  - Experience in other jurisdictions has shown an overall increase in the number of locations
  - Within two years of privatization, Alberta had a 134% increase over the combined number of ALCB stores, wine stores and beer stores
  - Nova Scotia's amended Alberta Model (i.e., with no stand-alone store restriction) will probably show a much greater percentage increase than Alberta
  - Experience in other jurisdictions has shown an overall increase in the number of communities containing a liquor store (i.e., increase in the number of outlets in rural areas)
  - Experience in other jurisdictions shows that under privatization, communities have experienced an increase in their liquor store counts (i.e., NSLC chooses the profit maximizing number of stores)
  - Experience in other jurisdictions has shown a low number of store closures compared to other retail sectors
  - In Alberta, the imposition of a uniform wholesale price has removed the incentive for the growth of retail liquor chains. However, Nova Scotia's amended Alberta model (i.e., no stand-alone store restriction) will allow the grocery chains to get involved in the liquor business very quickly. Although, the cost of beverage alcohol products will be the same for all stores.

- **Price**
  - It can be argued that liquor store privatization will not necessarily result in significant changes in retail prices or government revenues if the government's objective with respect to the sale of liquor products both before and after privatization is net revenue maximization.
  - Results on changes in retail liquor prices since privatization suggest that in spite of any lower private retailer operating costs that could have been achieved by reducing labour costs, for example, and in spite of more intense spatial competition among liquor retailers and evidence of falling wholesale liquor prices (on average), average nominal retail liquor prices actually increased in the early years after privatization.
  - However, given imperfect information regarding retail liquor store prices, and the fact that consumers have to engage in costly searches to learn about prices, one

should expect a significant degree of retail price dispersion within cities, towns and smaller communities.

- **Product Selection**
  - The impact of privatization on product selection may be demonstrated by a sample of 100 private liquor stores in Alberta, the average number of SKUs per private liquor store is higher than the weighted average number of SKUs per ALCB store.
  - The number of SKUs available at the ALCB warehouse has more than doubled under privatization, this increase reflects both an increase in the number of brands in particular product classes, and an increase in the variety of package sizes.
- **Customer Service**
  - Licensees cater to customers taste in their particular location
  - Additional retail hours
  - Shorter distances for customers to travel
  - Increase in hours of operation
  - shopping convenience (i.e., hours of operations, location, credit card)
  - Store caters to customer's product preference within a particular region/location
- **Employment & Wages**
  - In Alberta, full-time equivalent employment in liquor stores has approximately tripled under privatization, but the wages of non-management liquor store employees are almost one-half of what a full-time union worker at the top of the scale could earn in an ALCB store.
  - In Nova Scotia, where beverage alcohol products will be integrated with other food products, the increase in employment will not be as dramatic. It is difficult to estimate what incremental employment effect would result in grocery chains and corner stores as a result of the addition of beverage alcohol products.

- **Marketplace and Competition Factors**
  - "Agency ready" stores (e.g., grocery stores, corner stores) exist within rural and urban N.S.
  - Distribution, warehousing and retail capabilities are already resident in the region.
  - Distribution in and out of warehouse is currently contracted out to 3rd party anyway
  - Privatization may result in significant increase in distribution costs which would impact local breweries and wineries.
  - Privatization has been a small business success story in other jurisdictions.
  - A significant number of new businesses
  - Few store failures
  - Many new secondary businesses have developed or obtained additional work as a result of privatization
    - Liquor agencies

- Beer coolers/refrigeration unit
- Renovations
- Cash registers/computers
- Shelving
- Computer software
- Insurance
- Space rentals
- Etc.

Social Impacts

- **Control of liquor sales**

  - Under the current NSLC model, statistics show that approximately 100,000 challenges are issued annually to persons suspected of attempting illegal purchases of liquor. Approximately 3% of these challenges result in refusal of service. In essence, all current NSLC retail staff act in a regulatory role to some extent. There are no statistics available on the extent to which illegal purchase attempts are successful.

  - If any other model for retailing were to be adopted which utilized private-sector involvement, monitoring and inspection would be required similar to that currently applied to licensee establishments or for the sale of other controlled products such as cigarettes. While a change from the existing model, given adequate resourcing and appropriate sanctions for violations, it should not prove to be any less effective as a control mechanism.

  - Allowing private-sector retail sales opens the possibility of illegal sales of smuggled or illicit liquor (i.e. that not acquired via the normal distribution channels). Once again, monitoring and inspection would be required to ensure that this does not occur, similar to that which already takes place for licensee beer sales. Other jurisdictions (notably Alberta) have not indicated this as being a problem to date.

- **Theft/crime**

  - Robberies and other criminal activity is not a major problem under the current model. Expanding the number of outlets and/or placing liquor products in existing retail operations may proportianally increase the likelihood that these locations will be targets for criminal activity, similar to the risk incurred by other retail operations dealing in high-value products. Reports from other jurisdictions, however, offer inconclusive data, in part because of difficulties in establishing directly comparable before-and-after models. However, the Calgary Police Service, in its 1995 report on liquor store offences, concludes:

"This analysis has important policy implications, because it dispels the myth that privatization of liquor businesses has increased the rate of crime. It reveals that privatization has not altered the amount of crime at the locations over the past 2 years."[1]

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[1] *See the "Calgary Police Service -- Private Liquor Store Offences -- Year End Report 1995,", p. 10*

- Private retailers could be required to demonstrate adequate security and control provisions as a condition of license if this remains a concern.

• Public Health & Safety

- While changing the liquor distribution model in Nova Scotia may result in changes in the consumption pattern in certain product sectors or geographic areas, experience indicates that changes in total sales volume are more largely related to the overall performance of the provincial economy than any other single factor. Therefore, changes to the distribution and retailing model are believed unlikely to have any significant long-term effect upon overall consumption of liquor products and should result in a negligible impact upon measures of public health and safety. Alberta suggests that increasing the number of retail liquor outlets has had no impact upon alcohol-related motor vehicle incidents, and that incidents of impaired driving are more closely related to the number of licensed drinking establishments rather than the number of retail outlets. Other studies have drawn inconclusive or conflicting conclusions following changes to the liquor retailing models in other jurisdictions.[2] Hence, no firm conclusion can be drawn that changes to the Nova Scotia model will have a predictable impact upon issues of public health and safety.

• Staffing and Employment

- Changes to the retail operation from the present model will have implications for employment and income levels for affected staff, as outlined elsewhere in this document. Under the agency store model, underperforming NSLC outlets would be closed and replaced by agents in pre-existing retail businesses in those communities. Most of the affected stores are in rural Nova Scotia. Jobs would likely be lost that are currently in the upper range of the retail scale in these communities, and would see them either not be replaced or substituted with lower-paying jobs in the agency operations. Under other scenarios involving larger-scale changes to the retail model, the same effect could be experienced on a broader scale.

• Product Selection, Pricing, and Consumer Reaction

- Under certain retail models, product selection in certain geographic areas could be reduced from that enjoyed at present, while in other markets selection would be expected to increase. Depending upon the model chosen and the level of competition, pricing of a given product could also vary from store to store, and

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[2] See "The Privatization of Liquor Retailing in Alberta," Douglas S. West, University of Alberrta, May, 1996.

could be higher than that for which it is presently sold. Either of these situations could result in dissatisfaction with the changes undertaken among members of the public whose selection and pricing are negatively affected, and lead to lower levels of customer satisfaction and reduced public support for the decision. Conversely, markets in which increased competition results in lower prices or increased product selection could see growing public support for the decision taken.

Conclusion

As can be seen in the attached financial summary spreadsheet, on a straight cash flow basis, the NSLC plus Agency Stores ranks as the highest return to the Government of Nova Scotia. However, it is important to note that it is both misleading and inappropriate to compare these options based solely on the cash flow results. Each of the options is based on a different set of assumptions, modelled largely on the recent experiences of other provinces and states.

After evaluating the initial wide range of business options and working with us to develop additional scenarios (all of which are presented in this document), it is our understanding that the Review Committee will present the various alternatives to Government. Independent of whichever option is eventually selected, there are a number of system changes which can be made to respond to stakeholder concerns and improve the level of service to the citizens of Nova Scotia.